भारतीय सनदी लेखाकार संस्थान

(संसदीय अधिनियम द्वारा स्थापित)

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

(Set up by an Act of Parliament)

[DISCIPLINARY COMMITTEE BENCH-II (2026-2027)]
[Constituted under Section 21B of the Chartered Accountants Act, 1949]

ORDER UNDER SECTION 21B(3) OF THE CHARTERED ACCOUNTANTS ACT, 1949 READ WITH RULE 19(1) OF THE CHARTERED ACCOUNTANTS (PROCEDURE OF INVESTIGATIONS OF PROFESSIONAL AND OTHER MISCONDUCT AND CONDUCT OF CASES) RULES, 2007.

File No.: [PR/125/2016/DD-151/16-DC/1540/2022]
In the matter of:

Shri Shriode Shrikrushna
111, 1st Floor, Sarda Sankul,
M.G. Road, Nashik,
Maharashtra-42001 ..... **Complainant**

Versus

CA. Pukhraj M. Banwat (M.No.071541)
M/s P.M. Banwat & Co.,
Chartered Accountants
13, Shahu Maharaj Shopping Complex
Ganesh Colony Road,
Jalgaon - 425001 .....**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. Pukhraj M. Banwat (M.No.071541)** (hereinafter referred to as the **Respondent**) is **GUILTY** of Professional and Other Misconduct falling within the meaning of Clause (2) of Part-IV of the First Schedule and Clause (5) and (7) 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 and prayed to the Committee for leniency in the matter. An opportunity was given for the submission of written representations; however, the Respondent failed to file any written response/submissions.

4. The Committee considered the reasoning as contained in Findings holding the Respondent 'Guilty' of Professional and Other Misconduct vis-à-vis verbal/written submissions of the Respondent.

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 the Respondent, was the statutory auditor of M/s Bhaichand Hirachand Raisoni Multistate Co-operative Credit Society for the period 2007-08 to 2013-14.

6. The Committee noted the charge that IRAC (Income recognition and asset classification) norms applicable to all Banks and Societies were not followed in the Society and likewise interest on overdue / NPA loan account had been credited to Profit and Loss Account, consequently showing profit making society and NPA classification of loans and advances were not done. Therefore, it was alleged that the Respondent had not qualified his report in this respect. In this regard, the Committee noted that the Respondent issued an unqualified audit opinion stating that the financial statements gave a true and fair view of the Society's affairs as on 31-03-2014 even though he was aware of the fact that the Society was not complying with IRAC/ NPA norms which affected the financial statements of the Company. The Committee further noted that the Respondent had reported certain irregularities elsewhere in the audit report and he had not mentioned those observations in his main audit report by suitably qualifying or modifying the "True and Fair View" conclusion. The Committee was of the view that the core issue was not non-reporting of the irregularities, but the failure to appropriately reflect their effect in the audit opinion despite the admitted non-compliance with IRAC/NPA norms.

7. As regards the charge that the Respondent's son availed the loan from the Society which was not repaid till date, the Committee noted that the Respondent admitted that the loan of approximately Rs. 20 Lakhs given to his son by the Society remained unpaid. He further stated

that he requested the Society to adjust the outstanding loan against the audit fees of the Respondent. Therefore, upon perusal of the financial statement, the Committee noted that no outstanding audit fee was found payable to the Respondent. The Committee was of the view that the non-payment of loans by a close relative of the statutory auditor of the Company (i.e., the Respondent) constitutes a threat to the independence of the audit and constitutes unethical behavior on the part of the Respondent.

8. As regards the charge that that large scale loans were given to Directors wherein some parts were unsecured but not reported by the Respondent, the Committee noted that the Respondent has not provided any documentary evidence, statutory provision, regulatory direction, or guideline applicable to co-operative societies to establish that loans granted to Directors/Key Management Personnel were exempt from disclosure under AS-18 on grounds of confidentiality. AS-18 (Related Party Disclosures) required disclosure of loans and transactions involving Directors/related parties in the financial statements. The committee further noted that the Respondent has not provided any documentary evidence, statutory provision, regulatory provision, regulatory direction, or guideline applicable to co-operative societies to establish that loans granted to Directors/ Key Management Personnel were exempt from disclosure under AS-18 on grounds of confidentiality. The Committee noted that the Society had failed to comply with the disclosure requirements of AS-18, which was material to the financial statements, and that the Respondent had failed to report or comment on such non-compliance in his audit report.

9. As regards the charge that the deficiencies of Collateral Security and repayment of Loan given to Directors, not disclosed in the Audit Report by the Respondent, the Committee noted that despite being aware of material discrepancies in the sanction, security, repayment and disclosure of loans granted to Directors, the Respondent failed to report these deficiencies in his main audit report on the financial statements of the Society for the year ended 31.03.2014, which reflected gross negligence in the conduct of the audit.

10. The Committee noted the charge that there were several frauds in various branches of the Society committed by the staff and Directors like misappropriation of funds and this fact had neither been reported by the Respondent in his audit report nor he lodged any police compliant against the staff or Directors of the Society. In this regard, the Committee noted that despite knowledge of the fraud, the Respondent neither reported the same in his audit report nor he brought it to the notice of any of the regulatory authority. The Committee noted that such fraud was material in nature, and its disclosure was essential for presentation of true and fair view of the financial position of society to its stakeholders. The Committee was of the view that the Respondent had failed to report the fraud in his audit report and had acted with gross

negligence in the discharge of his professional duties. Hence, the Professional and Other 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.

11. Accordingly, the Committee was of the view that the ends of justice would be met if punishment is given to the Respondent commensurate with the Professional Misconduct/Other Misconduct established against him.

12. **Thus, the Committee, keeping in view the facts and circumstances of the case, material on record and the representation of the Respondent before it, and upon considering the seriousness of charges and the gravity of the matter, it ordered that CA Pukhraj M. Banwat (M.No.071541), Jalgaon, be Reprimanded, removed his name from the Register of Members for a period of 01 (One month) 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
निशा शर्मा / Nisha Sharma
सहायक सचिव / Assistant Secretary
अनुशासनात्मक निदेशालय / Disciplinary Directorate
भारतीय सनदी लेखाकार संस्थान
The Institute of Chartered Accountants of India
आई.सी.ए.आई. भवन, सी–1, सेक्टर–1, नोएडा–201301 (उ.प्र.)
ICAI Bhawan, C-1, Sector-1, Noida-201301 (U.P.)

CONFIDENTIAL

DISCIPLINARY COMMITTEE [BENCH – II (2026-2027)]

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

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

File No:- [PR/125/2016/DD-151/16-DC/1540/2022]

In the matter of:
Shri Shriode Shrikrushna
111, 1st Floor, Sarda Sankul,
M.G. Road,
Nashik,
MAHARASHTRA

..... Complainant

Versus

CA. Pukhraj M. Banwat (M.No.071541)
M/s P.M. Banwat & Co.,
Chartered Accountants
13, Shahu Maharaj Shopping Complex
Ganesh Colony Road,
Jalgaon - 425001.

.....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 : 11th May 2026
DATE OF DECISION TAKEN : 25th July 2026
DATE OF PRONOUNCEMENT OF DECISION : 29th August 2026

PARTIES PRESENT:
Respondent : CA. Pukhraj M. Banwat (Through VC – From ICAI Mumbai)
Counsel for Respondent : Adv. S. G. Gokhale (Through VC – From ICAI Mumbai)

1. **Background of the Case:**

1.1 M/s Bhaichand Hirachand Raisoni Multistate Co-operative Credit Society, Jalgaon Maharashtra had 243 branches in seven states with deposits to the tune of Rs.1100 Crores of lacs of depositors. In 2015, a series of complaints were registered against the Directors of the said Society for cheating, criminal breach of trust and other sections of Maharashtra Protection of Interest of Depositor Act over the charges of not returning money of the investors who were offered 13% interest on their fixed deposits at police stations across the state. Subsequently the Society went into liquidation. The Respondent has been the statutory auditor of the Society for the period 2007-08 to 2013-14. It is stated by the Complainant that the Respondent was appointed as statutory auditor for the year 2014-15 too however, when the problems started coming with the Society for repayment of deposits, he (Respondent), did not complete the audit.

2. **Charges in brief:**

2.1. It is stated that IRAC (Income recognition and asset classification) norms applicable to all Banks and Societies were not followed in the Society and likewise Interest on overdue / NPA loan account had been credited to Profit and Loss Account, consequently showing profit making society and NPA classification of loans and advances were not done. It is alleged that the Respondent had not qualified his report in this respect.

2.2. (a) It is alleged that the Respondent's son availed two cash credit loans from the Society in F.Y. 2009-10 and thereby violated the provision according to which a statutory auditor cannot accept the audit of an entity if he or his close relative indebted to that entity.

(b) It is further alleged that the Respondent's son availed the loan from the Society which was not repaid till date.

2.3. (a) It is alleged that large scale loans were given to Directors wherein some parts were unsecured however, not disclosed in the Audit Report by the Respondent.

(b) Deficiencies of Collateral Security and repayment of Loan given to Directors, not disclosed in the Audit Report by the Respondent.

2.4. It is stated that there were several frauds in various branches of the Society committed by the staff and Directors like misappropriation of funds. It is alleged that this fact had neither been reported by the Respondent in his audit report nor he lodged any police compliant against the staff or Directors of the Society

3. **The relevant issues discussed in the Prima facie opinion dated 27th January 2022 formulated by the Director (Discipline) in the matter in brief, are given below:**

3.1. With respect to first charge (as mentioned in para 2.1 above) of non-compliance with IRAC (Income recognition and asset classification)/NPA norms by the Society, from the perusal of Significant Accounting Policy - 4 which mentions about 'Loan and Advances' as provided in financials of the Society for the years ended 31-03-2008, 31-03-2009, 31-03-2010, 31-03-2011, 31-03-2012 and 31-03-2014 the following para had been noted as having repeated in all such financials:

"Loan and Advances shown as per total outstanding balance to each loan account without classifying them as standard, substandard, Doubtful and loss assets. The society has not followed N.P.A. norms but Society has made provision for Bad and Doubtful Debt every year."

From the above note mentioned in all the financials of the Society since 2007-08 to 2013-14, it was clear that the NPA norms (Classification of Loan and Advances in balance sheet according to its recoverability and recognition of income according to such classification) although applicable to the Society to follow while classifying its Loans and Advances in balance sheet and while recognising its income as interest on Overdue Loan however, the Society since 2007 had continuously failed to prepare its financials as per the applicable Income Recognition Assets Classification/NPA norms.

3.2. In this regard, the Respondent in his written statement had mentioned that he had already instructed to the Society that they should have classified the overdue loan as per circular of Cooperative department and make a provision of N.P.A, but the Society did not follow his instruction. Thus, on perusal of his statutory audit report dated 11-8-2014 addressed to Members of the Society brought on record by the Respondent for the year ended 31-03-2014 the following points had been observed:

1. In covering letter, under "Suggestions to the Board of Directors", point no. 4 states "NPA Rules to be followed by the society". In Para 7 under 'Major Irregularities', there is no mention of non-compliance of NPA norms.

2. **Further, there was a Statutory Audit Report** dated 11-08-2014 addressed to member given under Section 73(4) of the Multi Co-operative Societies Act, 2002 wherein there was no such mention of non-compliance of NPA Circular by the Society.

3. The above mentioned audit report dated 11-08-2014 (in which the Respondent had expressed his opinion also) was followed by an undated Form – 1 (Audit Report). However, it was noted that there is no mention of such Form-1 in the main audit report dated 11-08-2014. In such Form-1, in its heading/point no. 9 'Irregularity & Violation', the Violation had been reported by referring Part - B (of such report) by the Respondent.

3.(i) Then, there was a Report/Clarification attached of Special Points asked by the Commissioner and Registrar of Co-op. Societies, Maharashtra State, Pune as per notification No.HAS/86 dt.10.11.1986 wherein point no. 1 reports about the 'Overdue Debt' to which the reference had been made to 'Part A' 'B' & 'C' of such report by the Respondent.

3.3. The Respondent had given his main Audit Report on 11-08-2014 under the requirement of Section-73(4) of the Multi Co-operative Societies Act,2002 addressed to the members of the Society wherein he had expressed his opinion on the financials of the Society for the year ended 31-03-2014. It is noted that the Respondent in such Audit Report had not mentioned any such non-compliance of NPA Circular/IRAC norms by the Society since year 2007 rather the Respondent had given his clean audit report. While in the Audit Report in Form-1 and its Parts (annexures) - A, B & C (which are found to be undated) the non-compliance with NPA norms has been reported. However, it is noted that the Respondent in his main audit report dated 11-08-2014 (wherein he expressed his opinion) had not drawn attention of users to such Form-1 or its Parts – A/ B/C (in which he reported non- compliance of NPA by the Society).

3.4. From the perusal of financials of the Society for the year ended 31-03-2014, it was observed that the main income of the Society is from the Interest Received on Loan

which is 87% of total income of the Society and Loans provided by the Society constitutes 70% of its total assets. It was viewed that although the Respondent in his written statement had admitted that Society had not made NPA provision as per NPA circular and also stated that he had already instructed Directors of the society in this regard however, it was noted that he had not qualified his audit report for this material misstatement in the financials of the Company. The contention of the Respondent that he had duly instructed to the Society while auditing and also mentioned in his report for such non- compliance of classification of such loan as per NPA norms and also to make provision of NPA, was not correct as in the main Audit Report which was given under the Multi State Co-operative Societies Act,2002 there is no reference of any such other Audit Report in Form – 1 or its Schedule/Part A,B and C through which irregularity of non-disclosure and non-provision as per NPA circular had been reported by the Respondent. Hence, it was viewed that even if he had reported the non-compliance in one format of his audit report, he was equally responsible to report such non-compliances in his main/other report also and should had modified his opinion accordingly. On the contrary there was not even reference of any such report which was showing the other picture of the state of affairs of the Society. Rather, on a matter/point 'Security against the Loan' it was noted that there is contradiction also in the two reports, as in the main audit report dated 11-8-2014, the Respondent had mentioned that '*The loans and advances made by the Society on the basis of security and properly secured and the terms and conditions on which they granted are proper and not prejudicial to the interest of Society and its members.* while on the other hand in his undated report in its Part – C had mentioned that '*In some case the Society has not obtained any Security against loan or Collateral Security.*' Further in such Part – C , many more deficiencies about the loans disbursed by the Society, had been reported of which there was no reference in his main Audit Report dated 11-8-2014 given to members of the Society in accordance with the Section 73(4) of the Multi State Co-operative Societies Act,2002.

3.5. It was viewed that the Respondent being the statutory auditor of the Society for the F.Y. 2003-14 did not modify his Audit report inspite of the facts that the Society had not been following the NPA Circular / IRAC norms in respect of overdue loans since the year 2007-08 and also there had been material deficiencies in the loan disbursement process during the year as mentioned in the preceding paras of this PFO. Further, the Respondent was well aware of such material non- compliance in the preparation and disclosure of

financials of the Society and still he did not make sure to report the non-compliances and its material impact on the financial health of the Society in his various audit reports rather chose to give his clean reports to its shareholders by merely instructing/advising therein to the Board of Director to follow rules of NPA.

3.6. Thus, the Respondent while auditing the accounts of the Society had been grossly negligent where he gave his clean report on the True and Fair view of the financials of the society for the year ended 31-03-2014. By merely giving any verbal or written instruction to the management to comply with the relevant provision as the Respondent or by mentioning the non-compliances only in the covering letter of his main audit report in the extant case, he cannot be relieved of his professional responsibility to modify his audit report as per the requirement of AAS 28 and also quantify its possible impacts on the financials of the Society for the financial year ended 31-03-2014 and more so when it was also on record that the Society had not been complying with such provisions for past / years and the effect of matter had been so material to the financial statements that thereafter within one year of his audit report i.e., in 2015, the Society went into liquidation. Accordingly, the Respondent was prima facie held **Guilty** of Professional Misconduct falling within the meaning of Clauses (5) and (7) of Part I of the Second Schedule to the Chartered Accountants Act,1949.

3.7. In respect of first leg of second charge (as mentioned in para 2.2(a) above) that the Respondent being the statutory auditor of the Society, his close relative i.e. his son indebted to the Society by availing two Cash Credit loans from the Society in the F.Y. 2009-10 (as stated by the Complainant and not rebutted by the Respondent), it was noted that the Respondent in his written statement had admitted this fact that a total loan of approximate Rs. 20 Lacs was disbursed to his son by the Society.

3.8. In this regard one of the fundamental principles described in applicable Code of Ethics – 2009 of ICAI expected to be observed by professional accountant while discharging their professional responsibility is **'Objectivity'**. Such principle requires that the professional accountant should not allow biasness, conflict of interest or undue influence of others to override professional judgements. It further describes the possible threats which may impact such principles and one of such threats is defined as '*Self Interest Threat' which*

reads as 'which may occur as a result of the financial or other interests of a professional accountant or of a ***relative.***

3.9. It further defines in Section/Para 120.2 '*A professional accountant may be exposed to situations that may impair objectivity. It is impracticable to define and prescribe all such situations.* ***Relationships that bias or unduly influence the professional judgement of the professional accountant should be avoided.'***

Further, on this fundamental principle of Independence, a specific Guidance Note 'Independence of Auditor' has also been issued by ICAI for its members.

3.10. In compliance with the above fundamental principle and related provisions, an auditor who was required to give his opinion on the financials of an entity, was expected to ensure that any of his financial or other interest or the interest of his relative in the auditee entity should not impact his opinion on the financials and he should be independent of his judgement and therefore he should avoid such kind of situation/relationship. In the extant case it was noted that the Respondent had been the statutory auditor of the Society from the F.Y. 2007-08 till the F.Y. 2013-14 and as mentioned by the Complainant and admitted by the Respondent in his written statement that his son had availed cash credit loan of Rs.20 Lacs in the F.Y. 2009-10, which is a clear violation of aforesaid fundamental principle as the Respondent being the statutory auditor of the Society was professionally liable to express an opinion on its financials while at the same time during his such association with the Society when his son indebted the Society by availing loan of Rs.20 lacs, the independence of the Respondent was compromised. Further, as stated in the above mentioned Guidance Note, the independence should be such as it should appear also to exist to all the reasonable stakeholders. Accordingly, in the present circumstances of the matter where there was already deficiencies in the Loans disbursements in the Society and non-compliances on the part of the Society in disclosing such Loans according to the required NPA norms and when it was also on record as discussed in the last allegation in preceding paras of this PFO, that the Respondent had not done his reporting in accordance with the applicable auditing standard, any reasonable stakeholder of the Society may reasonably conclude that since the son of the auditor of the Society was availing a significant amount of loan from the Society, he (auditor) was biased and his did not report the matter in a required manner.

3.11. Hence, it was viewed that the Respondent in compliance with the above said provisions of Code of Ethics – 2009 in order to safeguard his independence in his judgement either should not had allowed his son to take loan from the Society or he should had withdrawn from the engagement of the Society from the year 2009-10 however, the Respondent continued to give the opinion on the financial of the Society knowing the fact that his relative had indebted to the Society with a significant amount of Rs. 20 Lacs in 2009 . Thus, this act of the Respondent was not expected from a professional and was of unbecoming of a chartered accountant making him prima facie **Guilty** of Other Misconduct falling within the meaning of Clause (2) of Part IV of the First Schedule to the Chartered Accountants Act,1949.

3.12. Regarding second leg of second charge (as mentioned in para 2.2(b) above) that the loan of the society taken by his son was not repaid till date, it was noted that the Respondent had admitted that the loan of approximate Rs.20 Lacs was not returned by his son till date. Although, the repayment of loan was the primary responsibility of his son, but it was noted that the Respondent in respect of this allegation had stated that his audit fee of Rs.60 Lacs due from the society was not paid till date and he had requested several times to the society to adjust the loan amount of Rs.20 Lacs due to his son from his pending audit fee from the Society but no adjustment was made till date by the Society. He further continues to state that considering this fact, the loan amount as shown in his son's account is deemed to have already repaid. In this regard from the perusal of the financials of the Society for the year ended 31-03-2014, no such audit fee of Rs.60 Lacs as claimed by the Respondent in his written statement is found to be due for payment. Rather in his undated Audit Report in Form-1 at point – 7 which reads as "If audit fee was not paid the reason behind that' it was specifically mentioned by the Respondent against such point as '**N.A**' which means no audit fee was payable by the Society to the Respondent as on 31-03-2014. It appears that the Respondent in respect of this charge, had been trying to mislead the Directorate by falsely claiming that since his audit fee was pending for payment by the Society, his son did not repay the loan to the Society while apparently there was no audit fee found on record payable by the Society. Such an act of the Respondent coupled with this apparently false statement of the Respondent without bringing on record any valid document/detail in respect of his pending undisputed audit fee of Rs.60 Lacs from the Society, was highly unbecoming of a chartered accountant making him prima facie **Guilty** of Other Misconduct falling within

the meaning of Clause (2) of Part IV of the First Schedule to the Chartered Accountants Act, 1949.

3.13. In respect of the first Leg of third charge (as mentioned in para 2.3(a) above) that the largescale loan was given to the Directors and some part was unsecured but not reported by the Respondent, it was noted that Loan to Directors amounts to "Related Party Transaction" which is required to be disclosed by the management of any entity in its financials in accordance with the provisions of AS-18 'Related Party Disclosures'.
From the perusal of a Statement of Pending Loans as on 31-03-2013 given by the Society to its Directors and their relatives, it was noted that out of total loan of Rs.44.05 Crores given to Directors, an amount of Rs.21.90 Crores were due from Founder Chairman, Rs.3.99 Crores were due from the Chairman and Rs.13.21 Crores were due from the Vice Chairman of the Society as on 31-03-2013.It was also noted that this composition of Board was for the period of 5 years from 2008 to 2013 and hence, it can reasonably be assumed that these Founder Chairman/Chairman/Vice Chairman were the Executive Directors of the Society who had the authority and responsibility of the Society and thus falling within the category of Key Managerial personnel of the Society. Accordingly, the Society in pursuance of AS-18 was required to disclose in its financials all such related parties and the related loan transactions with them and with their relatives.

3.14. However, from the perusal of the Financials of the Society for the period ended 31-03-2013 and 31-03-2014, it was seen that the management of the Society in its Note.8 of the Significant Accounting Policy of the both the years had given the same following disclosure in this regard:

'8. Related Party Disclosure

The Society is co-op. Society under Multistate Co-operative Societies Act, 2002 and ***there are no related parties****, requires disclosure under the Accounting Standard 18 issued by ICAI.'*

3.15. From the combined reading of above paras it was amply clear that the Society out of its total Loans of Rs.553.90 Crores shown in the Balance sheet as on 31-03-2013 had given

a material amount of loan being 8% (Rs.44.05 Crores) to its Directors which were the Key Managerial Personnel of the Society and inspite of the requirement of AS -18, the management of the Society in its financials mentioned that there was no related party hence, no disclosure was given. The Respondent however, in his audit report dated 11-08-2014 not reported any such non- compliance of Related Party Disclosure on the part of the Society in its financials.

3.16. It was further noted that the Respondent in his written statement had although denied this leg of the allegation that such large scale loans given to Directors are not mentioned in his Audit Report and stated that the List of loan to Directors was enclosed with the Audit report duly certified by the Society. In this regard, from the perusal of such Audit Report, it was noted that although such list of loans due from the Directors was placed to this Directorate along with the audited financials of the Society however, there was no mention/ reporting by the Respondent in his Audit Report dated 11-08-2014 of any such large amount of Loans given and pending in the name of Directors/Chairman-Director/Founder Chairman-Director/Vice-Chairman Director of the Society but not disclosed by the management in its Financials in the manner as required under AS 18. It was viewed that merely by attaching the list of pending loans from the Directors/Key Managerial persons of the Society to his audit report, the Respondent cannot be relieved from his professional responsibility of Reporting in his main audit report the non-compliance of disclosure requirement of AS-18 on the part of Society. The Respondent was required to report the matter in his Audit Report in accordance with applicable auditing standard AAS – 28 'The Auditor's Report on Financial Statements' and seeing the materiality of the amount being 8% of total loan given to such KMP of the Society, he was required to modify his report accordingly.

3.17. Hence, in the light of above discussion viz. the disclosure requirement of AS-18, noncompliance of such disclosure requirement on the part of the Society and further, the non-reporting of such non-compliance by the Respondent in his Audit Report, it was clear that the Respondent had been grossly negligent while performing audit of the financial of the Society making him prima facie **Guilty** of Professional Misconduct falling within the meaning of Clause (7) of Part I of the Second Schedule to the Chartered Accountants Act,1949.

3.18. Further, regarding the second leg of the third charge (as mentioned in para 2.3(b) above) that some part of such loan given to the Directors was unsecured, it was noted that the Respondent in his written Statement had admitted the following:
"*As regards loans with the Directors I have already given necessary instruction that* ***Society has not taken mortgage or security against some loans.'***

3.19. From the perusal of his Audit Report dated 11-08-2014 along with his report in Form-1 and its annexures in Part A, B & C, it was noted that the Respondent in the Annexure in Part-C of his Audit report had mentioned the following:
'3. In some cases the society has not obtained any security against loan or Collateral Security'.
'6. In some loan cases Mortgage are taken but the valuation and search are not taken.'

3.20. It is further noted that the Respondent in its main Audit Report on the financials for the year ended 31-03-2014, in Para-9, 'Suggestions to Board of Directors' it was mentioned in sub para 2 that:
'Loan to Directors and their relatives - the Rules regarding that shall be strictly followed. In every meeting of Board of Directors ***there should be discussion on the overdue loan with Board*** *and their relatives'*

3.21. Combined reading of above paras it was coming out that there were serious deficiencies of Collateral Security and repayment of Loans given to the Directors of the Society and inspite of that it was noted that the Respondent in his main Audit Report given under Section 73 of the Multi State Co-operative Societies Act, 2002 to its members had no-where mentioned any such deficiencies and seeing the amount of loan given to the Directors being 8% of total loan of the Society, he had not modified his report in accordance with the requirement of applicable AAS-28-'The Auditor's Report on Financial Statements'. Rather, surprisingly and in contrary to what he had mentioned in his annexures regarding the security of the loan, he had reported in point no. 5 of the main audit report that '*The loans and advances made by the Society on the basis of security are properly secured.....*'

3.22. Thus, it was apparent that the Respondent while giving his Audit report on the financials of the society for the year ended on 31-03-2014 had been grossly negligent as it was well

within his knowledge that there were material discrepancies of Collateral Security in sanctioning and disbursing loans to Directors, then there were issues in the repayment of such loans and thereafter there was no proper disclosure of all such matter in the financials of the Society and inspite of all such lapses in the Society and in its financials, the Respondent had given clean audit report to the members and other stakeholders of the Society.

3.23. Accordingly, the Respondent was prima facie held **Guilty** of Professional Misconduct falling within the meaning of Clause (7) of Part I of the Second Schedule to the Chartered Accountants Act,1949

3.24. In respect of fourth allegation (as mentioned in para 2.4 above) related to misappropriation of funds in various branches of the Society committed by the employees and Directors, it was noted that in point no.1 of Part – A of the Audit Report of the Respondent for FY 2013-14, it was mentioned that the Respondent was appointed as Special Auditor for one of branch of the Society in Ghule Road, Pune by Board of Directors vide resolution dated 01-09-2013. In that Special Audit Report, a misappropriation of Rs.29.85 Crores by an Ex. Branch Manager with the cooperation of other Clerk, Cashier, third party etc. was reported by the Respondent and it was also suggested to take legal action against them. Further, the Respondent in his written statement has mentioned the same fact that he had performed the special audit of the Society and gave his audit report to the Society. However, it was noted that the Respondent in his main Audit Report dated 11-08-2014 has not referred to such misappropriation of Funds of Rs.28.85 Crores by the Ex-Branch Manager and other employees of the branch of the Society. In this regard, it was viewed that even if the Respondent had given a separate Special audit Report on the misappropriation of funds in the Society and also gave the reference of such Special Audit and misappropriation of funds in the annexure to his audit report in Form – 1, however, as it was already discussed in preceding allegations that since his such Audit Report in Form -1 and its annexures/Part were not given any reference in the main Audit Report dated 11-08-2014, it cannot be treated as part of the Audit Report as in the absence of any such reference there was always a possibility that such Audit Report in Form-1 and its annexures A/B/C may not be in the notice of the Members of the Society and other stakeholders. Further, it was also seen that during the year there had been an inspection

too of the books of accounts and other papers of the Society for the period 01-04-2007 to 30-11-2013 under Section-108 of the Multi State Co-operative Society Act, 2002 ordered by Co-operative Commissioner and Registrar of Co-operative Societies, Pune. In the same financial year, the conduct of Special Audit and Inspection of past 6 years' accounts raises doubt about the working of the Society and inspite of that the Respondent without discussing any such possibility in his main audit report had given clean Report on the financial state of affairs of the Society.

3.25. In this regard, the relevant Standard on Auditing SA – 240 - The Auditor's Responsibilities Relating to Fraud in its para 43 mentions about 'Communications to Regulatory and Enforcement Authorities'.

However, in the extant case, it was noted that the Respondent inspite of being aware of the misappropriation of funds of a significant amount i.e., Rs. 29.85 Crores in the Society did not report to the Registrar of Societies or other regulatory authority of the Society or even in his main audit report as the Respondent in his written statement had stated that he had submitted his Special Audit Report to the Society and also instructed for the necessary action.

3.26. This amounts to gross negligence in reporting on the part of the Respondent to show a clear picture of the Society to its members and other stakeholders who were relying on his opinion on the Financials of the Society. It also amounts to failure on his part to report a known material fact of occurrence of such fraud of Rs.29.85 Crores in the Society and its impact on its financials not disclosed by the Society in its financials for the year ended 31-03-2014. The fraud may be considered material as in accordance with applicable SA 320 – 'Materiality in Planning and Performing an Audit', if known to the users of financials may influence their decision of becoming member of the Society and investing money in such Society in the form of deposits at lucrative rate of interest as mentioned in para 7.1 of this PFO. Accordingly, the Respondent in respect of this charge is prima facie held **Guilty** of Professional Misconduct falling within the meaning of Clause (5) and (7) of Part I of the Second Schedule to the Chartered Accountants Act,1949.

3.27. Accordingly, the Director (Discipline) in his Prima Facie Opinion dated 27th January, 2022 opined that the Respondent was Prima Facie **Guilty** of Professional and Other Misconduct falling within the meaning Clause (2) of Part IV of the First Schedule and

Clause (5) and (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.The said Clauses of the Schedule to the Act, states as under:

Clause (2) of Part IV of the First Schedule:

"A member of the Institute, whether in practice or not shall be deemed to be guilty of other misconduct, if he-

x x x x x x x

(2) in the opinion of the Council, brings disrepute to the profession or the Institute as a result of his action whether or not related to his professional work."

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

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

x x x x x x x

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

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

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

x x x x x x x

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

3.28 The Prima Facie Opinion formed by the Director (Discipline) was considered by the Disciplinary Committee in its meeting held on 08th April 2022. The Committee on consideration of the same, concurred with the reasons given against the charges and thus, agreed with the Prima Facie Opinion of the Director (Discipline) that the Respondent was **GUILTY** of Professional and Other Misconduct falling within the meaning Clause (2) of Part IV of the First Schedule and Clause (5) and (7) of Part I of the Second Schedule to the Chartered Accountants Act,1949 and accordingly, decided to proceed further under Chapter V of the Chartered Accountants (Procedure of Investigations of Professional and Other Misconduct and Conduct of Cases) Rules, 2007.

4. **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	12th May 2016
2.	Date of Written Statement filed by the Respondent	29th August 2016
3.	Date of Rejoinder filed by the Complainant	23rd September 2016
4.	Date of Prima Facie Opinion formed by Director (Discipline)	27th January 2022
5.	Written Submissions filed by the Respondent after PFO	20th June 2022

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

5.1 The Respondent vide letter dated 20th June 2022, inter-alia, made the submissions which are given as under:-

i. With regard to **first charge**, it is contended that there is full reporting about non-following of NPA norms and the reader stands duly informed. It is submitted that giving cross reference of such non-compliance in the opinion on "True and Fair View" would have been ideal, but absence of the same should not amount to misconduct.

ii. It is further submitted that even if NPA norms were not complied with, the Society has been making provision for bad and doubtful debts.Regarding impact on financials, it is stated that ascertaining the same would require applying NPA norms to each and every loan, which is beyond the scope of audit. It is submitted as a settled principle that not every deviation or mistake in performing duty should be treated as misconduct.

iii. The Respondent admits that it was a mistake/typographical error not to mention in the report "True and Fair View subject to Part A, B & C", which are part of the Audit Report.

iv. With regard to **second charge**, the matter relates to his son taking loan from the Society and principles of conflict of interest. Threats to independence on account of relationships are discussed, particularly in the Guidance Note on Independence of Auditors. It is noted that it is impossible for a member to be free from relationships, and only some relationships are statutorily considered conflicting and need to be avoided.

v. In the present case, the relationship is not covered by any statutory restriction. For other relationships, it has to be viewed case to case considering transaction, its size and nature, and it is a matter of perception. The Respondent states that he did not consider his son availing loan as affecting his independence.

vi. The allegation that loan was sanctioned due to his influence is rejected and he is held "Not guilty", and it is accepted that loan was sanctioned on merits. Therefore, he contends that he should not have been held guilty for compromising independence (relative had indebted to the Society).

vii. It is noted from accounts for 2013-14 and Audit Report that no audit fee was pending, and adverse finding was recorded that he made false claim to mislead the Directorate. The Respondent clarifies that audit fee was not finalized before year end and is determined after finalisation of accounts as per prescribed formula.

viii. Therefore, audit fee is not provided in books and earlier year audit fees are accounted on actual payment basis. He states that he raised a bill dated 25/08/2014 for Rs.68.99 lacs (including service tax) for audit fees for 2013-14, and this was the amount referred in his written statement. He further states that the system of non-provisioning of audit fees has been followed consistently from 2007 to 2014.He also states that similar system is followed by nationalised banks for statutory branch audit.

ix. With regard to **third charge,** it is submitted that applicability of AS-18 is not absolute and exceptions exist as per Para 6 of AS-18, such as confidentiality of transactions.

x. Loans to Directors and others can be covered under confidentiality. Section 39(3) of the MSCS Act provides for disclosure of information to members at AGM regarding loans to Directors.

xi. On various pages of Audit Report there are observations about loans to Directors and others, which are in the nature of qualifications. Thus, it is contended that irregularities have been duly reported. It is further submitted that every deviation or mistake should not be viewed as misconduct.

xii. With regard to **fourth charge,** in respect of fraud/misappropriation, the Respondent conducted Special Audit and reference thereof is given in Part 'A' (part of Audit Report) on D-374 (Para 1), and the same is noted in PFO - 8.7.1.The issue remains of not giving cross-reference to it in the opinion on "true and fair view". The Respondent states that his contentions are the same as in respect of allegation No. 2 and 4.

xiii. As regards reporting of fraud to external agency, it is submitted that there does not appear such requirement for Society covered under MSCS Act. Under MSCS Act, the

Auditor has to independently file Audit Report to the Registrar. In this case, the Respondent states that he has filed the Audit Report accordingly, which includes reference to fraud/misappropriation.

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.	23rd August 2022	Adjourned at the Request of the Respondent.
2.	22nd June 2023	Adjourned in the absence of both Complainant and Respondent.
3.	11th July 2023	Oath taken by Respondent.
4.	28th November 2023	Adjourned at the Request of the Respondent.
5.	27th March 2026	Adjourned at the Request of the Respondent.
6.	11th May 2026	Hearing concluded & findings reserved.
7.	25th July 2026	Decision taken.

6.2 On the day of first hearing held on 23rd August 2022, the Committee noted the Complainant was not present, and no intimation was received from him in reply of notice duly served. The Committee noted that Respondent vide his email dated 20th August 2022 had sought adjournment in the matter. The Committee, looking into the same, decided to adjourn the matter to future date.

6.3 On the day of the hearing held on 22nd June 2023, the Committee noted that neither of the parties were present nor was any intimation received from their end, despite notice/email was duly served upon them. The Committee looking into grounds of natural justice decided to give a final opportunity to both parties to present their representations, if any. Thereafter, the Committee decided to adjourn the hearing to a future date.

6.4 On the day of the hearing held on 11th July 2023, the Committee noted that the Respondent was present through Video Conferencing Mode. The Committee noted that the letter sent to the Complainant was received back with the remark "Deceased". 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. The Committee directed the office to write a letter to the legal heir of the Complainant asking for participation in hearings. The Committee, looking into the grounds of natural justice, decided to adjourn the hearing.

6.5 On the day of the hearing on 28th November 2023, the Committee noted that both the parties were not present. The Committee also noted Complainant is deceased in the instant matter However, the notice/email was served to legal heirs of the Complainant, but no intimation was received from their end. The Committee further noted that the Respondent vide email dated 18th November 2023 sought adjournment due to the medical emergency of his wife. The Committee acceded to the adjournment request of the Respondent. Accordingly, the matter was adjourned to the next date.

6.6 On the day of the hearing on 27th March 2026, the Committee noted the Respondent sought an adjournment vide email dated 27th March 2026 due to health issues. Further, he stated that he has been shifted to Dhule and want to attend the meeting with his Counsel at Mumbai Region Office. 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.

6.7 On the day of the hearing on 11th May 2026, the Committee noted that the Respondent along with Counsel were present through VC and appeared before it. However, the Committee noted that the notice issued to the complainant through Speed Post has been returned with the information that the complainant has deceased. 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 11.07.2023 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 directed the Counsel for the Respondent to make their submissions. The Counsel submitted that the Respondent had been the auditor for seven continuous years

from 2007 to 2014. With respect to second allegation, it was submitted that audit reports for FY 2013–14 were duly signed and filed with the registrar. He submitted that reporting formats under the Multi State Co-operative Society Act (MSCS) do not provide any specific format, but state law provides some formats which were adopted and there was no suppression of facts. The Committee observed that Form-I was not the prescribed form under the MSCS Act and referred to Section 73(4) regarding the audit report format.

Further, allegation related to audit norms and IRAC compliance, the Counsel submitted that the Respondent had duly reported matters and that difference pertained to presentation rather than non-reporting.

With respect to first leg of fourth allegation loans given to directors, the Counsel submitted that AS-18 was not applicable and that disclosures were made in the audit report. He argued that the report covered loans generally.

With respect to third leg of third allegation loan given to son, the Counsel refers ICAI guidance note and Code of Ethics, stating that independence is a matter of perception and no violation existed. He further submitted that audit fee of Rs. 60 lakhs were due on society and according to society there is nothing due. The Counsel submitted that audit fee is normally provided in the books of accounts of the previous year, but in the present case no provision for audit fee was made and it was directly shown as paid. He argued that audit fee is not quantified until audit is finalised. The Committee noted the submissions of the Counsel for the Respondent.

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

6.9 On the day of final hearing 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 11th May 2026 and the Findings was reserved. The Committee considered the material on record including the 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 the **first charge** against the Respondent (as mentioned in para 2.1 above) that, IRAC (Income recognition and asset classification) norms applicable to all Banks and Societies were not followed in the Society and likewise Interest on overdue / NPA loan account had been credited to Profit and Loss Account, consequently showing profit making society and NPA classification of loans and advances were not done.

7.2 The Committee noted from the submissions of the Respondent that, the Statutory Audit Report, including Form No. 1, formed a single audit report under Section 73(4) of the MSCS Act and adequately disclosed the Society's non-compliance with NPA norms. It was contended that the users of the financial statements were duly informed through the audit report, and although a reference to such non-compliance in the "True and Fair View" opinion would have been preferable, its omission was merely a typographical/inadvertent error and should not be construed as professional misconduct. The Respondent further submitted that the Society had made provisions for bad and doubtful debts, that quantification of the impact of non-application of NPA norms would require examination of every loan account which was beyond the scope of audit, and that every mistake or deviation in the performance of professional duties does not amount to misconduct.

7.3 The Committee noted that, the Respondent issued an unqualified audit opinion stating that the financial statements gave a true and fair view of the Society's affairs as on 31-03-2014. Though, he was aware of the fact that the Society was not complying with IRAC/NPA norms, which affected income recognition, asset classification, and the profit shown in the financial statements. Merely mentioning these non-compliances in a covering letter or giving instructions to Management was considered insufficient.

7.4 As per AAS 28 (Audit Reports on Financial Statements), the auditor should have modified or qualified the audit opinion if the non-compliance had a material effect on the financial statements. The Respondent also failed to assess and quantify the likely impact of the non-compliance on the financial statements, despite the issue being significant.

7.5 The Committee noted from AAS 28 (Audit Reports on Financial Statements), as follows:-

41. Whenever the auditor expresses an opinion that is other than unqualified, a clear description of all the substantive reasons should be included in the report

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

7.6 The Committee further noted that, the non-compliance was not an isolated instance; the Society had allegedly been following this practice for about seven years, indicating a continuing and material problem. The seriousness of the matter was further evidenced by the fact that the Society went into liquidation within one year of the audit report, suggesting that the financial position may not have been fairly represented.

7.7 The Committee observed that, the non-compliance with NPA norms had been reported in various parts of the Statutory Audit Report (Part A, B and C), and that the issue was merely the absence of a cross-reference in the "True and Fair View" opinion.

7.8 The Committee noted that while the Respondent had reported certain irregularities elsewhere in the audit report, he had not linked those observations to the audit opinion by suitably qualifying or modifying the "True and Fair View" conclusion. The Committee observed that the core issue was not non-reporting of the irregularities, but the failure to appropriately reflect their effect in the audit opinion despite the admitted non-compliance with IRAC/NPA norms. Therefore, the Respondent is held **Guilty** of Professional Misconduct falling within the meaning of Clause (5) and (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

7.9 The Committee noted the **first leg of second charge** (as mentioned in para 2.2(a) above) against the Respondent was that the Respondent's son availed two cash credit loans from the Society in F.Y. 2009-10 and thereby violated the provision according to which a statutory auditor cannot accept the audit of an entity if he or his close relative indebted to that entity.

7.10 The Committee noted the submissions of the Respondent that, the matter relates to the principles of conflict of interest. He contended that not all relationships create a conflict of interest and that only certain relationships are specifically prohibited by statute. According to the Respondent, his son's loan was not covered by any statutory restriction and whether it affected his independence was a matter of facts, circumstances and professional judgment.

7.11 The Committee also noted that he had made a false claim regarding pending audit fees, explaining that audit fees were determined only after finalisation of accounts, were not provided for in the books, and that he had raised a bill of Rs. 68.99 lakh for audit fees for F.Y. 2013-14. He stated that this practice had been consistently followed from 2007 to 2014 and was similar to the practice followed in statutory branch audits of nationalised banks. Accordingly, he contended that his independence had not been compromised and sought to be absolved of the allegation.

7.12 The Committee noted the Respondent's reliance on the ICAI Guidance Note on Independence of Auditors and his argument that the relationship was not covered by any specific statutory prohibition. The primary concern was whether the indebtedness of the Respondent's close relative to the Society created a threat to the auditor's independence and objectivity while continuing as statutory auditor. The Committee also took note of the Respondent's explanation regarding the alleged outstanding audit fees and his claim that audit fees were determined and billed only after finalisation of the audit.

7.13 The Committee noted from certain relevant paragraphs of Code of Ethics 2009 as under:

Loans and Guarantees

*"**290.125** A loan, or a guarantee of a loan, to the professional accountant/any partner of the firm/firm from an assurance client that is a bank or a similar institution, would not create a threat to independence provided the loan, or guarantee, is made within the terms of statutory provisions and guidelines/guidance notes issued by the Council of the Institute from time to time in this regard.. If the loan amount is exceeding the limit specified by the statute to the assurance client or the firm, it may be possible, through the*

application of safeguards by way of repayment of loan, to reduce the self-interest threat created to an acceptable level. Such safeguards might include replacing the other professional accountant from outside the firm, or network firm, to undertake the work.

***290.126** Subject to the provisions of Section 290.125 above and the RBI Guidelines issued from time to time in regard to the Banking Companies, a loan, or a guarantee of a loan, from an assurance client that is a bank or a similar institution, to a member of the assurance team or their relative(s) would not create a threat to independence provided the loan, or guarantee, is made under normal lending procedures, terms and requirements. Examples of such loans include home mortgages, bank overdrafts, car loans and credit card balances"*

7.14 The Committee noted that a loan from a bank to an accountant, their partner, or firm is generally acceptable if it stays within standard legal and statutory limits. If the loan exceeds those limits, it creates a self-interest threat, requiring safeguards like repayment or bringing in an outside professional to perform the audit. Under the Code of Ethics – 2009, specifically Section 290.126, a loan or guarantee from an assurance client that is a bank or similar institution to a relative of a member of the assurance team does not create a threat to independence, provided the loan is made under normal lending procedures, terms, and requirements.

7.15 The Committee noted that the Respondent relied on this principle, along with the ICAI Guidance Note on Independence of Auditors, to argue that the relationship did not fall under any prohibited category that would necessitate his withdrawal from the audit. He asserted that the loan followed standard practices and did not inherently override his professional objectivity.

7.16 The Committee further noted the principle of "Objectivity," which requires that a professional accountant remain free from bias, conflict of interest, or undue influence. While the Code identifies "Self-Interest Threats" related to the financial interests of a relative, the Respondent maintained that the existence of the loan alone did not constitute a breach of ethics in the absence of a specific guideline or statute prohibiting loans to an auditor's son. He argued that his independence remained uncompromised throughout his tenure from 2007 to 2014.

7.17 After considering the Respondent's submissions and the specific provisions of the Code of Ethics, it is of the view that the loan to the Respondent's son did not meet the threshold for a statutory violation. The Respondent successfully argued that the relationship was not explicitly covered by prohibitions that would automatically impair his independence. Consequently, the Committee concluded that the evidence did not support a charge of misconduct in this regard. Therefore, the Respondent is held **NOT GUILTY** of Other misconduct falling within the meaning of Clause (2) of Part IV of the First Schedule to the Chartered Accountants Act, 1949.

7.18 The Committee noted the **second leg of second charge (**as mentioned in para 2.2 (b) above) against the Respondent was that, the loan of the society taken by Respondent's son was not repaid till date.

7.19 The Committee noted the submissions of the Respondent that, he had sought adjustment of his son's loan against audit fees payable to him by the Society. He submitted that audit fees were not provided for (no provision for audit fees had been created) in the Society's books before finalisation of accounts and were determined subsequently as per the prescribed formula. In this regard, he stated that he had raised an audit fee bill of Rs. 68.99 lakh for F.Y. 2013-14 and that the practice of accounting for audit fees on actual payment basis had been consistently followed by the Society.

7.20 The Committee noted the Respondent admitted that the loan of approximately Rs.20 lakhs obtained by his son from the Society remained unpaid. The Respondent contended that audit fees were outstanding from the Society and that he had repeatedly requested the Society to adjust the outstanding loan against his pending audit fees. However, upon examination of the financial statements of the Society for the year ended 31.03.2014, no outstanding audit fee payable to the Respondent was found recorded in the books of account and the Respondent's own Audit Report (Form-I), the Committee found no evidence of any audit fee being payable by the Society. In fact, against the column relating to unpaid audit fees, the Respondent had recorded "N.A.", indicating that no audit fee was outstanding.

7.21 The Committee noted that even if audit fees would have been outstanding, non-payment of loans by the close relative of Respondent is a threat to independence of audit an unethical behaviour on the part of Respondent. Moreover taking a plea of outstanding fees for non-payment of loan is unethical behaviour of Respondent.

7.22 The Committee also noted that the financial statements and Form-I audit report did not show any such outstanding audit fees, and no supporting evidence was produced at that stage; therefore, the Respondent is held **Guilty** of Other Misconduct falling within the meaning of Clause (2) of Part IV of the First Schedule to the Chartered Accountants Act, 1949.

7.23 The Committee noted the **first leg of third charge** (as mentioned in para 2.3(a) above) against the Respondent was that, the large scale loan was given to the Directors and some part was unsecured but not reported by the Respondent.

7.24 The Committee noted that loans granted to Directors constitute related party transactions requiring disclosure under AS 18 – Related Party Disclosures. As per the statement of pending loans as on 31.03.2013, loans aggregating Rs. 44.05 crores were outstanding to Directors, including Rs. 21.90 crores to the Founder Chairman, Rs. 3.99 crores to the Chairman, and Rs. 13.21 crores to the Vice Chairman. Since these individuals were members of the Board and can reasonably be regarded as Key Management Personnel, the Society was required to disclose such transactions in accordance with AS-18.

7.25 The Committee also noted that, the financial statements for the years ended 31.03.2013 and 31.03.2014 stated that there were no related parties requiring disclosure under AS-18. Thus, despite loans to Directors constituting approximately 8% of the total loan portfolio of Rs. 553.90 crores, no related party disclosures were made.

7.26 The Committee also noted that, the Respondent contended that the list of loans to Directors was enclosed with the audit report, the submission states that there was no reporting in the audit report regarding the Society's non-compliance with AS-18. Merely annexing the list of pending loans did not discharge the Respondent's responsibility to report the material non-disclosure. Accordingly, the Respondent ought to have reported

the non-compliance and considered modification of the audit report in terms of AAS-28 – The Auditor's Report on Financial Statements.

7.27 The Committee also noted from provisions of AS-18 'Related Party Disclosures' are given below:

Para – 5

5. Related party disclosure requirements as laid down in this Standard do not apply in circumstances where providing such disclosures would conflict with the reporting enterprise's duties of confidentiality as specifically required in terms of a statute or by any regulator or similar competent authority.

Para – 20

'20. *The statutes governing an enterprise often require disclosure in financial statements of transactions with certain categories of related parties. In particular, attention is focussed on transactions with the directors or similar key management personnel of an enterprise, especially their remuneration and borrowings, because of the fiduciary nature of their relationship with the enterprise.'*

Para-14

'14. Key management personnel are those persons who have the authority and responsibility for planning, directing and controlling the activities of the reporting enterprise. For example, in the case of a company, the managing director(s), whole time director(s), manager and any person in accordance with whose directions or instructions the board of directors of the company is accustomed to act, are usually considered key management personnel.'

Para-23

'If there have been transactions between related parties, during the existence of a related party relationship, the reporting enterprise should disclose the following: (i) the name of the transacting related party; (ii) a description of the relationship between the parties; (iii) a description of the nature of transactions; (iv) volume of the transactions either as an amount or as an appropriate proportion; (v) any other elements of the related party transactions necessary for an understanding of the financial statements; (vi) the amounts or appropriate proportions of outstanding items pertaining to related parties at the balance sheet date and provisions for doubtful debts due from such parties at that date; and (vii) amounts written off or written back in the period in respect of debts due from or to related parties.'

7.28 The Committee noted that the Respondent has not provided any documentary evidence, statutory provision, regulatory direction, or guideline applicable to co-operative societies to establish that loans granted to Directors/Key Management Personnel were exempt from disclosure under AS-18 on grounds of confidentiality. AS-18 (Related Party Disclosures) required disclosure of loans and transactions involving Directors/related parties in the financial statements. The Society had failed to make the requisite disclosures regarding such loans, thereby violating the disclosure requirements of AS-18. The Committee further noted that despite this non-compliance being material to the financial statements, the Respondent, as statutory auditor, did not report or comment upon the same in his audit report. Since it was the auditor's duty to identify and report material non-compliances affecting the financial statements, the Respondent's failure to do so amount to a lack of due diligence and professional care. Therefore, the Respondent is held **Guilty** of Professional Misconduct falling within the meaning of Clause (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

7.29 The Committee noted the **second leg of third charge** (as mentioned in para 2.3(b) above) against the Respondent was that Deficiencies of Collateral Security and repayment of Loan given to Directors, not disclosed in the Audit Report by the Respondent.

7.30 The Committee noted the submissions of the Respondent that the issue relating to unsecured loans to Directors had been duly reported in Annexure in Part-C & Para-9, 'Suggestions to Board of Directors' of the Statutory Audit Report. He contended that observations contained, highlighted the irregularities relating to loans and advances, including those granted to Directors, and therefore there was no suppression or non-reporting of material facts. According to the Respondent, the only omission was the absence of a specific cross-reference linking these observations to the audit opinion on "true and fair view."

7.31 The Committee noted that there were serious deficiencies in the collateral security and recovery of loans granted to the Directors of the Society. Despite the materiality of such irregularities, the Respondent failed to report these deficiencies in his main audit report issued under Section 73 of the Multi-State Co-operative Societies Act, 2002. Considering

that loans to Directors amounted to approximately 8% of the Society's total loan portfolio, the Respondent ought to have drawn attention to these matters and considered modification of his audit report in accordance with AAS-28, "The Auditor's Report on Financial Statements." His failure to do so reflected a lack of due diligence in the discharge of his professional duties.

7.32 The Committee observed that despite being aware of material discrepancies in the sanction, security, repayment and disclosure of loans granted to Directors, the Respondent failed to report these deficiencies in his main audit report on the financial statements of the Society for the year ended 31.03.2014, which reflected gross negligence in the conduct of the audit. Therefore, the Respondent is held **Guilty** of Professional Misconduct falling within the meaning of Clause (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

7.33 The Committee noted the **fourth charge** (as mentioned in para 2.4 above) against the Respondent was that, there were several frauds in various branches of the Society committed by the staff and Directors like misappropriation of funds. It is alleged that this fact had neither been reported by the Respondent in his audit report nor he lodged any police compliant against the staff or Directors of the Society.

7.34 The Committee noted the submission of the Respondent that, the fraud/misappropriation was duly reported in the Special Audit Report and reference thereto was made in Part A of the Audit Report. The Respondent stated that the Multi-State Co-operative Societies Act, 2002 does not specifically require auditors to separately report such frauds to any external agency. He further submitted that the audit report was independently filed with the Registrar as required under the Act and that the report contained reference to the fraud/misappropriation.

7.35 The Committee noted that, despite possessing knowledge of the fraud, the Respondent neither reported the matter in his audit report dated 11.08.2014 nor brought it to the notice of the Registrar or any regulatory authority. Though the matter was mentioned in the annexures to Form-1, neither Form-1 nor its annexures were specifically referred to in the main audit report and, therefore, could not be regarded as forming part of the audit report placed before the members and stakeholders. In terms of SA 240, upon identifying

or suspecting fraud, the auditor is required to consider his reporting responsibilities, including reporting to appropriate authorities where required by law.

7.36 The Committee further noted that, during the same period, an inspection under Section 108 of the Multi-State Co-operative Societies Act, 2002 covering the period from 01.04.2007 to 30.11.2013 had also been conducted, indicating serious concerns regarding the affairs of the Society. Nevertheless, the Respondent issued an unmodified audit report without drawing attention to the fraud, inspection proceedings, or their impact on the financial statements.

7.37 The Committee noted from Standard on Auditing SA – 240 - The Auditor's Responsibilities Relating to Fraud in its para 43 mentions about 'Communications to Regulatory and Enforcement Authorities' reads as below:

'43. If the auditor has identified or suspects a fraud, the auditor shall determine whether there is a responsibility to report the occurrence or suspicion to a party outside the entity. Although the auditor's professional duty to maintain the confidentiality of client information may preclude such reporting, the auditor's legal responsibilities may override the duty of confidentiality in some circumstances'.

7.38 The Committee observed that such fraud was material in nature and its disclosure was essential for presenting a true and fair view of the financial position of the Society to its members and other stakeholders. The Committee further observed that knowledge of such fraud could significantly influence the decisions of members, depositors and prospective investors dealing with the Society. By failing to modify his audit report and adequately report the material fact and its financial implications, the Respondent was considered grossly negligent in the discharge of his professional duties. Therefore, the Respondent is held **Guilty** of Professional Misconduct falling within the meaning of Clause (5) & (7) 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 7.8 as above	**Guilty** - Clause (5) and (7) of Part I of the Second Schedule.
Para 2.2 (a) as above	Para 7.9 to 7.17 as above	**Not Guilty** - Clause (2) of Part IV of the First Schedule.
Para 2.2 (b) as above	Para 7.18 to 7.22 as above	**Guilty** - Clause (2) of Part IV of the First Schedule.
Para 2.3 (a) as above	Para 7.23 to 7.28 as above	**Guilty** - Clause (7) of Part I of the Second Schedule.
Para 2.3 (b) as above	Para 7.29 to 7.32 as above	**Guilty** - Clause (7) of Part I of the Second Schedule.
Para 2.4 as above	Para 7.33 to 7.38 as above	**Guilty** - Clause (5) and (7) 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 and Other Misconduct falling within the meaning of Clause (2) of Part IV of the First Schedule and Clauses (5) and (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

DATE: 29.08.2026

PLACE: Noida

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चरण सिंह / Charan Singh
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अनुशासनात्मक निदेशालय / Disciplinary Directorate
भारतीय सनदी लेखाकार संस्थान
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