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/161/2019-DD/183/2019/DC/1545/2022]
In the matter of:
Ghanshyam Nandlal Popat HUF
Through its Karta,
Sh. Ghanshyam Nandlal Popat,
Nand Niwas Jatpura Gate,
Popat Building,
Chandrapur (Maharashtra) – 442402 ..... **Complainant**

Versus

CA. Damodar Shivraj Sarda (M. No. 044952)
Partner, M/s D A V A & Associates,
Chartered Accountants,
Sarda Complex,
Behind Azad Garden, Ganj Ward,
Kasturba Road,
Chandrapur (Maharashtra) – 442402 .....**Respondent**

MEMBERS PRESENT:

1. **CA. Prasanna Kumar D, Presiding Officer**
2. **CMA. Chandra Wadhwa, Government Nominee**
3. **CA. Mahesh Shah, Government Nominee**
4. **CA. Hans Raj Chugh, Member**

DATE OF HEARING: 15th October 2026
DATE OF PRONOUNCEMENT OF ORDER: 15th October 2026
DATE OF ORDER: 15th October 2026

1. That vide Findings dated 29th August 2026 under Rule 18(17) of the Chartered Accountants (Procedure of Investigations of Professional Misconduct and Conduct of Cases) Rules, 2007, the Disciplinary Committee was, inter-alia, of the opinion that **CA. Damodar Shivraj Sarda (M. No. 044952)** (hereinafter referred to as the **Respondent**) is **GUILTY** of Professional Misconduct falling within the meaning of Clause 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. The Committee noted the Respondent vide email dated 25th September 2026 requested for adjournment which was acceded to by it. The Committee noted that an opportunity make representation before it was once again granted to Respondent on **15th October 2026.**

3. The Committee noted that on the date of hearing on 15th October 2026, the Respondent was present physically and appeared before it. The Respondent admitted his mistake and prayed to the Committee for leniency. The Committee noted that the Respondent vide email dated 17th September 2026 submitted his written submissions which, inter alia, given as under: -

- The Respondent submitted that the non-disclosure arose from a 'bona fide' understanding of the Hon'ble Court's order dated 15.07.2017 and the MRL, and was not a deliberate omission.
- He submitted that the matter involved a 'bona fide' exercise of professional judgment, with no fraud, misappropriation, collusion, personal benefit or loss to any stakeholder.
- The disputed rent of Rs.26,565 was stated to be insignificant in relation to the company's sales, assets, capital and reserves, and profit.
- He further submitted that he has more than three decades of professional experience with a clean record, and that the matter relates to one specific disclosure issue in one audit engagement.
- The Respondent prayed to the committee to take a lenient view.

4. The Committee considered the reasoning as contained in Findings holding the Respondent 'Guilty' of Professional Misconduct vis-à-vis verbal/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 the verbal and written submissions of the Respondent on the Findings, the Committee noted that the Respondent firm was appointed as the statutory auditor of M/s Samadhaan Marketing & Merchandise Pvt. Ltd. (hereinafter referred to as "Company") for the financial year 2017-18 and the Respondent had conducted the audit of the Company.

6. The Committee noted the charge that the Respondent, being the auditor of the Company, failed to report in his audit report the dishonoured cheques and the non-accounting of the liability regarding the lease rent and compensation amount by the Company in the financial year 2017-18. In this regard, the Committee noted that the Respondent relied upon the Management representation letter wherein it was stated that there was no contingent liability on the balance sheet date. The Committee further noted that the Company had approached the Hon'ble Court seeking directions against the lessor for waiver/ non recovery of lease rent, however, no relief was granted by the Court. The Respondent was personally named in the Lease Deed and it was stated therein that Respondent was one of the seven persons whose declaration / consent was

required in case of fresh induction of any person in the lease premises on consignment basis or otherwise, if the same is objected by the lessors.

7. The Committee noted that the Company had neither recorgnised nor disclosed the lease rent liability as the contingent liability as on 31.03.2018 even though the cheques issued towards the lease rent has been dishonoured upon presentation to the Bank. However, the Respondent failed to evaluate the implications of these facts and did not report about the non-disclosure of contingent liability and the dishonoured cheques in his audit report. The Committee was of the view that such an act of the Respondent reflected a lack of due diligence and professional scepticism on his part. 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 the Respondent commensurate with the Professional Misconduct/Other Misconduct established against him.

9. **Thus, the Committee, keeping in view the facts and circumstances of the case, material on record and the representation of the Respondent before it, ordered that CA. Damodar Shivraj Sarda (M. No. 044952), Chandrapur be Reprimanded and also imposed a fine of Rs. 25,000/- (Rupees twenty five 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/-
(CMA CHANDRA WADHWA)
GOVERNMENT NOMINEE

Sd/-
(CA. MAHESH SHAH)
GOVERNMENT NOMINEE

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.

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In the matter of:
Ghanshyam Nandlal Popat HUF
Through its Karta,
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..... Complainant

Versus

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Partner, M/s D A V A & Associates, Chartered Accountants,
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Behind Azad Garden, Ganj Ward,
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Chandrapur (Maharashtra) – 442402

.....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. Damodar Shivraj Sarda (Through VC)
Counsel for Complainant : Adv. Shri Ketan Khanke (Through VC)

1. **Background of the Case:**

1.1 It is stated that Shri Dayalal Girdharlal Popat and Shri Nandlal Girdharlal Popat were the Directors (hereinafter cumulatively referred to as 'Ex-Directors') of **M/s Samadhaan Marketing & Merchandise Pvt. Ltd.** (hereinafter referred to as **'Company'**). It is further stated that the Company had entered into a Lease Deed Agreement dated 13.10.2016 with Ms. Heena Dayalal Popat, Ms. Hansa Nandlal Popat, Dayalal G Popat HUF, Kartik Nandlal Popat HUF and the Complainant (hereinafter cumulatively referred to as 'Lessors') wherein the lessors were the owners of the property leased to the Company. It is also stated that the ex-directors and the lessors were the family members. The Respondent firm was appointed as the Statutory Auditor of the Company for financial year 2017-18 and the Respondent, as the partner of Respondent firm, had conducted the audit of the financial statements of the Company for the said period. In the instant matter, the Complainant has mainly alleged that the Company had issued different post-dated cheques in favour of Lessors towards lease rent and also in favour of ex-directors towards compensation for relinquishing their office as directors of the Company, but later on, during Year 2017, various cheques returned dishonoured but the Company had not either accounted / provided for the liabilities or disclosed the contingent liabilities in respect of those cheques which were dishonoured, in their books of accounts for the FY 2017-18 and the Respondent, being the Auditor, also failed to report the said discrepancy in his audit report.

2. **Charges in brief:**

2.1. The Company had issued post-dated cheques towards lease rent and compensation after deducting tax at source as applicable, but the payees had not received tax deduction certificates from the Company. The amount of TDS was also not reflected in their Form 26AS, which proves that the Company had not deposited / credited the same with Income Tax department. The Respondent had also failed to report the said discrepancy in his Audit Report.

2.2. The lease deed dated 13.10.2016 was finalized in consultation with the Respondent. It is also stated that as per Clause 12(B)(ii) and (iii) of the lease deed dated 13.10.2016, the Respondent was one of the seven persons named therein and out of the said seven

persons, decision / written consent of any four persons was necessary for fresh induction of any person in the leased premises on consignment or otherwise if objected by the lessors and for induction of any new Director in the Company. Thus, the Respondent was aware of the lease deed agreement dated 13.10.2016 so executed between the parties, and the fact of issue of post-dated cheques. In this regard, it is alleged that during Year 2017, various post-dated cheques issued by the Company returned dishonoured on presentation but the Company had not accounted / provided for the liabilities in respect of those cheques which were dishonoured, in their books of accounts for the FY 2017-18 and the Respondent, being the Auditor, also failed to report in his audit report, about the said dishonour of cheques and the non-accounting of liability regarding lease rent and compensation amount by the Company in its financial statements for the FY 2017-18.

3. **The relevant issues discussed in the Prima facie opinion dated 21th March 2022 formulated by the Director (Discipline) in the matter in brief, are given below:**

3.1. With respect to first charge, as regards allegation of deduction and non-deposit of tax at source on the payments made to lessors and ex-directors in respect of lease rent and compensation respectively by issuing post-dated cheques, it was noted that the Complainant had submitted the copy of lease deed dated 13.10.2016 , wherein as per Point 2 and 10 of the deed, the Company was liable to pay an amount of Rs. 1,25,000/- as lease rent and Rs. 1,25,000/- as compensation to the lessors and ex-directors respectively. In this regard, it was observed that at first instance, the contention of the Respondent was correct when he had stated that TDS was to be deducted only when the amount was due by way of credit or when the amount was actually paid. But it appears that the said contention of the Respondent had been made by him only in respect of those post-dated cheques which were dishonoured on presentation to the bank by lessors / ex-directors. However, in the instant matter, it was stated that though various post-dated cheques were issued by the Company in the month of October 2016, certain cheques were dishonoured on presentation to the bank only from September 2017 onwards. Thus, the said contention of the Respondent was not maintainable against those post-dated cheques which were cleared / honoured by the Company till August 2017 as the payment in respect of those cheques had already been realized and the liability for deduction and deposit of tax at source had been attracted. It was

pertinent to mention here that the instant allegation raised by the Complainant was against all post-dated cheques issued by the Company and not specifically against those post-dated cheques which were dishonoured. It was also noted that the Respondent in his Written Statement had submitted that he was not at all concerned with deduction and remittance of TDS and for issue of TDS certificate. In this regard, it was noted that under the provisions of SA-250 - Consideration of laws and regulations in an audit of financial statements (effective for all audits commencing on or after April 1, 2009), an auditor should obtain sufficient appropriate audit evidence about compliance with the provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements such as tax laws etc. Certain paragraphs of SA-250 – 'Consideration of laws and regulations in an audit of financial statements', considered relevant to the matter.

3.2. From the provisions of SA-250, it was observed that being the Statutory Auditor of the Company, the Respondent was responsible to see whether the TDS as and where required, had been deducted and if deducted, whether the same had been deposited timely with the tax authorities / to the credit of Central Government, so as to comply with the law of land especially for the FY 2017-18 when he was the auditor of the Company. However, from the submission of the Respondent, that he was not concerned with deduction and remittance of tax at source by the Company, it appears that the Respondent had neither checked that whether the Company had deducted the TDS as and when required, nor he had done TDS reconciliation for the FY 2017-18 which the Respondent as a Statutory Auditor was required to do. Accordingly, based on the various submissions and documentary evidences on record, it was viewed that the Respondent was prima facie **Guilty** of Professional Misconduct falling within the meaning of Clause (7) of Part I of Second Schedule to the Chartered Accountants Act 1949 in respect of instant allegation.

3.3. As regards second charge of non-accounting of liability by the Company in respect of those post-dated cheques which were dishonoured and also not been reported by the Respondent in his audit report, it was noted that the Respondent had submitted the copy of Management Representation Letter (MRL) dated 22.08.2018 received by him during the conduct of audit of the Company wherein Point 20 of MRL reads as under:

'The Company has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance.

However, ***the Company, as per the observation of Hon'ble Court and with due intimation to landlords of old premises, has not paid the rent from September 2017 as they have failed to put the premises under enjoyable condition (which were gutted due to fire occurred on 30.10.2016). Therefore, the Company justifiably believes that liability to pay rent / compensation ceased to exist as there is breach of contract by the Landlords. As company is not under obligation to pay rent from September 2017, no such rent / compensation was debited to P&L account.'***

3.4. It was noted that in his Written Statement, the Respondent had informed that he had relied on the aforesaid management representation letter and accordingly, no disclosure of 'contingent liability' was given in the financial statements of the Company for the financial year ending on 31.03.2018. In this regard, it was also noted that Para 3 of 'SA-580 – Written Representations' (effective for audits of financial statements for periods beginning on or after April 1, 2009) states that a written representation received from the management did not provide sufficient audit evidence on their own and thus, an auditor cannot solely depend on such written representations received from the management of the Company.

3.5. It was pertinent to mention that the Respondent had also submitted the copy of order of Hon'ble Civil Judge, Senior Division, Chandrapur dated 15.07.2017 wherein the Company had filed an application against the lessors before the Hon'ble Court for issuing directions to the lessors for not recovering the lease rent from the Company. However, it is noted that the Hon'ble Court had not given any relief to the Company in this regard. The relevant paragraphs of such order was reproduced as under:

'Read the application and perused the record. Heard both sides. ***The present application is filed by the plaintiff for issuing direction to the defendant for not recovering the rent from the plaintiff and for not encashing the cheque already handed over to the defendant as against the rent. However, the plaintiff has not***

given any details of cheques. *Alternatively, plaintiff has efficacious remedy of stopping payment of cheque by, requesting the bank, as desired.*

In the present application, the plaintiff has also sought direction that defendant be restrained from recovering the rent. However, without going into the merit, it would be improper to give direction at this stage.

In view of the above observation, I am not inclined to grant any relief as prayed in the application....' (emphasis added)

3.6. It was noted that the Respondent was already aware of the filing of aforesaid application by the Company against the lessors for not recovering of the rent by the lessors, wherein the Company did not get any relief from the Hon'ble Court. Despite being aware of the said fact of no relief given to the Company, still the Respondent chose to completely rely on the Management Representation Letter received from the Company wherein the Company had not even disclosed the contingent liability in its financial statements as on 31.03.2018 in respect of lease rent, the cheques of which were dishonoured on presentation to the bank and the Respondent also failed to report the said discrepancy in his audit report. In this regard, it was noted that Paragraph 10.4 of AS-29 "Provisions, Contingent Liabilities and Contingent Assets" defines a contingent liability. Further Paragraph 68 of AS-29 requires that unless the possibility of outflow was remote, an enterprise must disclose contingent liabilities at the balance sheet date.

3.7. It was noted that since some of the post-dated cheques issued by the Company were dishonoured and certain legal proceedings were already going on between the parties and the Hon'ble Court, Chandrapur also did not give any relief to the Company in its order dated 15.07.2017, the amount of lease rent and compensation payable to the lessors and ex-directors respectively in respect of dishonored cheques, should have been disclosed as the Contingent liability in the financial statements of the Company for the financial year ending on 31.03.2018, but the contingent liability was not disclosed by the Company and also was not reported by the Respondent in his audit report. It was also noted that as per Point no. 12(B)(ii) of the Lease deed dated 13.10.2016 , the Respondent was one of the seven persons whose declaration / consent was required in case of fresh induction of any person in the lease premises on consignment basis or

otherwise, if the same was objected by the lessors. It was also noted that Para (vii) to (x) of the said lease deed read as under:

'(vii) The Lessors also demanded vacation of the scheduled premises for their bona fide occupation, considering that they wanted younger members of the family to settle in business in their own premises.

(viii) The Lessee having been unwilling to enhance rent as demanded by Lessors and also unwilling to vacate the premises in question, have proposed to increase rent at the most by 10% with effect from 1 April 2015.

(ix) On account of the above, disputes among Lessors on the one hand and Directors of the Lessee on the other hand took a serious turn resulting in police reports and civil suits.

(x) Considering longstanding relations among the parties, some well-wishers of the parties settled the disputes and the parties have arrived consensus regarding rate of rent and also time of vacating the premises.' (emphasis added)

3.8. From the above paras of the lease deed, it was clear that certain disputes already existed between the lessors / ex-directors and the Company at the time of execution of the said lease deed. Since the Respondent was also named in the deed, it was also clear that the Respondent was well aware of aforesaid disputes between the parties. Despite these facts, the Respondent simply chose to rely on the management representation letter and ignored the order dated 15.07.2017 of Hon'ble Civil Judge, Senior Division, Chandrapur as aforesaid mentioned. The Respondent had also failed to provide any other audit evidence on record on the basis of which he agreed with the accounting treatment given by the Company by not accounting for the liabilities and by not disclosing the contingent liability in its financial statements as on 31.03.2018. Accordingly, based on the reasoning given above and various submissions on record and in the absence of any sufficient documentary evidence(s) / justification provided by the Respondent on record in his defense, it was viewed that the Respondent was prima facie **Guilty** of Professional Misconduct falling within the meaning of Clause (7) of Part I of Second Schedule to the Chartered Accountants Act 1949 in respect of instant allegation.

3.9. Accordingly, the Director (Discipline) in his Prima Facie Opinion dated 21th March, 2022 opined that the Respondent was Prima Facie **GUILTY** of Professional Misconduct falling within the meaning Clause (7) of Part I of the Second Schedule to the Chartered Accountants Act,1949.The said Clause of the Schedule to the Act, states as under:

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

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

x x x x x x x

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

3.10. 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 Misconduct falling within the meaning Clause (7) of Part I of the Second Schedule to the Chartered Accountants Act,1949 and accordingly, decided to proceed further under Chapter V of the Chartered Accountants (Procedure of Investigations of Professional and Other Misconduct and Conduct of Cases) Rules, 2007.

4. **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	20th May 2019
2.	Date of Written Statement filed by the Respondent	13th August 2019
3.	Date of Rejoinder filed by the Complainant	09th October 2019
4.	Date of Prima Facie Opinion formed by Director (Discipline)	21st March 2022
5.	Written Submissions filed by the Respondent after PFO	25th June 2022
6.	Written Submissions filed by the Complainant after PFO	18th July 2022

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

5.1 The Respondent vide letter dated 25th June 2022, inter-alia, made the submissions which are given as under:-

i The Respondent had earlier filed a detailed response dated 13th August 2019 before the Director (Discipline), ICAI explaining why no inquiry should be initiated. It is stated that the PFO has been arrived at with a pre-meditated mindset and in disregard of the principles of natural justice, and therefore should be set aside.

ii The Respondent draws attention to the auditor's report, wherein it was states that the primary responsibility for preparation of financial statements and compliance with Accounting Standards lies with the Board of Directors, and that management is responsible for ensuring completeness of the financial statements.

iii The scope of statutory audit is governed by the Standards on Auditing (SA) under Section 143(10) of the Companies Act, 2013, which require the auditor to obtain reasonable assurance, not absolute assurance, that financial statements are free from material misstatement.

iv The audit involves performing procedures to obtain audit evidence, selecting procedures based on auditor's judgment and risk assessment of material misstatement due to fraud or error, and considering internal financial controls relevant to preparation of financial statements.

v The Respondent submits that an auditor is required to exercise reasonable skill, care and caution, similar to what a reasonably competent and careful auditor would use. An auditor is a watch-dog and not a blood-hound, he is not required to approach his work with suspicion unless circumstances create suspicion. Professional misconduct cannot be established merely on non-performance or inefficiency, but only when there is failure to act honestly and reasonably.

vi The respondent relied on a Management Representation Letter (MRL) dated 22nd August 2018 stating that there were no contingent liabilities as on the balance sheet date. The management also stated that the company had stopped paying rent from September 2017 because the leased premises were damaged by fire on 30th October 2016 and the landlords failed to restore them to a usable condition. The company believed that its liability to pay rent ceased due to breach of contract by the landlords, and therefore rent was not debited to the Profit and Loss Account. As per auditing

standards, the auditor relied on management representations in the absence of reasons to doubt their integrity.

vii The respondent further explained that the dispute primarily existed between the tenant company and the landlords, involving litigation, allegations of harassment by the landlords, and proceedings before courts including NCLAT. The tenant alleged that the landlords deliberately created obstacles and even caused the fire to force the tenant to vacate the premises. Due to failure of the landlords to repair the property, the tenant shifted its business to another premises in June 2017 and stopped paying rent thereafter.

viii The respondent contends that he had no role in the dispute between the tenant and the landlords and has been unnecessarily dragged into the matter because he was the statutory auditor.

ix Regarding TDS on rent, the respondent states that the statutory audit under the Companies Act requires reporting under CARO 2016 only about undisputed statutory dues outstanding for more than six months. It does not require reconciliation of all TDS deductions or verification of Form 26AS of deductees. The audit is conducted on a sampling basis based on materiality. The respondent states that TDS challans, returns and working papers show that the relevant TDS had been deducted and deposited, and that the complainant misunderstood the mechanism of TDS deduction and payment.

x The respondent also explained that rent expenses were not recognized because the premises were not usable and the liability to pay rent was disputed. Based on legal advice and management representations, it was concluded that no provision or contingent liability was required to be disclosed under AS-29, since the obligation to pay rent was uncertain and dependent on future events.

xi The respondent emphasizes that an auditor performs verification within the framework of financial reporting, based on books of accounts and documents provided by management. The auditor cannot detect transactions that are not reflected in the accounting records. No evidence has been produced to show that the respondent failed to perform required audit procedures or acted with gross negligence.

6. **Submissions of the Complainant:**

6.1 The Complainant vide letter dated 18th July 2022, inter-alia, made the submissions which are given as under:-

i The prima facie view that the Respondent is guilty of professional misconduct is mainly based on certain aspects.

ii One aspect is that cheques had already been realized up to April 2017, and therefore liability for deduction and deposit of tax at source had arisen. However, in the entire Written Statement there is no explanation as to why the Respondent's Audit Report is silent about statutory compliances regarding cheques honoured up to April 2017.

iii Another aspect is that the Company did not get any relief from the Hon'ble Court, and despite being aware of this fact, the Respondent still chose to rely on the management representation Letter to accept that there was no contingent liability, and no fresh explanation has been given except reiterating that the Management Representation Letter was received and accepted by the auditor.

iv Some post-dated cheques issued by the Company were dishonoured and legal proceedings were pending between the parties, and the Court also did not grant any relief to the Company in its order dated 15.07.2017.However, the Respondent has not given any satisfactory explanation as to why contingent liability was not disclosed despite pendency of litigation.

v Most of the contents of the Respondent's Written Statement consist of repetition of the earlier Written Statement dated 13.08.2019, references to legal provisions regarding the duties of an auditor, and defence of Samadhan Marketing and Merchandise Pvt. Ltd. as if representing the Company in pending litigation.

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

7.1 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.	09th June 2023	Oath taken by the Complainant and the Respondent.
2.	20th March 2026	Adjourned at the Request of the Respondent.
3.	11th May 2026	Hearing concluded & Finding Reserved.
4.	25th July 2026	Decision taken

7.2 On the day of first hearing held on 09th June 2023, the Committee noted the Respondent and his counsel(s) CA. A.P. Singh and CA. Utsav Hirani, were present through Video Conferencing Mode from their respective places. 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, the Committee decided to adjourn the hearing to a future date. With this, the hearing in the matter was partly heard and adjourned.

7.3 On the day of the hearing on 20th March 2026, the Committee noted that consideration of subject case was deferred by the Committee due to unavoidable circumstances.

7.4 On the day of the hearing on 11th May 2026, the Committee noted that the Respondent and the Counsel for the Complainant were present through VC and appeared before it. Thereafter, the Committee noted that the case was part heard and the Respondent and the Complainant were already on oath. The Committee enquired from the Respondent and Complainant that since the composition of the Committee had changed subsequent to the last hearing held on 09.06.2023 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 and the Complainant opted for de-novo hearing and accordingly the Respondent and the Complainant were administered on Oath. Thereafter, the Committee enquired from the Respondent as to whether he was aware of the charges against him and then the charges as contained in prima facie opinion were read out. On the same, the Respondent replied that he is aware of the charges and pleaded 'Not Guilty' to the charges levelled against them.
With respect to first allegation related to non-deposit of TDS, the Respondent submitted that since the company had not recorded any rent expense or made rent payments, the question of TDS did not arise and therefore there was no reporting requirement in Form 3CD. The Committee asked clarification from Respondent on post-dated cheques issued by the Company towards lease rent. The Respondent submitted that after destruction of the property by fire, the landlord failed to make the property usable, and therefore rent payments were stopped after six months of F.Y. 2017-18 due to Court

order. He submitted that TDS was deducted and deposited for the initial period of 6 months when payments were made and reported in Form 3CD and reflected in Form 26AS.

The Complainant submitted that for F.Y. 2017-18, cheques were honoured till August 2017 and thereafter dishonoured, and TDS was not properly reflected in accounts.

With respect to allegation on contingent liability, the Respondent submitted that directors of the Company have given declaration in MRL that there is no liability because the property is not enjoyable, hence there is no contingent liability. The Complainant argued that despite disputes and court proceedings, the liability should have been disclosed and reliance solely on management representation was insufficient under SA-580. The Committee observed that where disputes exist, contingent liability would arise. The Committee noted the submissions of both of the parties.

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.

7.5 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 Counsel for the Complainant and 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 submissions of the parties. The Committee deliberated in detail on the said case and took decision on the conduct of the Respondent.

8. Findings of the Committee:-

8.1 The Committee noted the **first charge** against the Respondent (as mentioned in para 2.1 above) that, the Company had issued post-dated cheques towards lease rent and compensation after deducting tax at source as applicable, but the payees had not received tax deduction certificates from the Company. The amount of TDS was also not reflected in their Form 26AS, which proves that the Company had not deposited / credited the same with Income Tax department. The Respondent had failed to report the said discrepancy in his Audit Report.

8.2 The Committee noted from the submissions of the Respondent that, TDS becomes applicable only upon credit or payment of rent and not at the time of execution of the lease deed. He further submitted that deduction/remittance of TDS and issuance of TDS certificates were responsibilities of the Company's management, not the auditor.

8.3 The Committee noted from **SA-250 – 'Consideration of laws and regulations in an audit of financial statements', considered relevant to the matter, are reproduced as under:**

'6. *This SA distinguishes the auditor's responsibilities in relation to compliance with two different categories of laws and regulations as follows:*
(a) ***The provisions of those laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements such as tax*** *and labour* ***laws****. (see* ***paragraph 13****); and*

(b) Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operating aspects of the business, to an entity's ability to continue its business, or to avoid material penalties (for example, compliance with the terms of an operating license, compliance with regulatory solvency requirements, or compliance with environmental regulations); non-compliance with such laws and regulations may therefore have a material effect on the financial statements (see ***paragraph 14****).*

7. In this SA, differing requirements are specified for each of the above categories of laws and regulations. ***For the category referred to in paragraph 6(a), the auditor's responsibility is to obtain sufficient appropriate audit evidence about compliance with the provisions of those laws and regulations.*** *For the category referred to in paragraph 6(b), the auditor's responsibility is limited to undertaking specified audit procedures to help identify non-compliance with those laws and regulations that may have a material effect on the financial statements.*

10. The objectives of the auditor are:

(a) To obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial statements;
(b) To perform specified audit procedures to help identify instances of noncompliance with other laws and regulations that may have a material effect on the financial statements; and
(c) ***To respond appropriately to non-compliance or suspected non-compliance with laws and regulations identified during the audit.'***

8.4 The Committee noted, as per above mentioned provisions of **SA-250 – 'Consideration of laws and regulations in an audit of financial statements'** (effective for all audits commencing on or after April 1, 2009), an auditor should obtain sufficient appropriate audit evidence about compliance with the provisions of those laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements such as tax laws etc.

8.5 The Committee noted that the Income Tax Department, upon investigating the Complainant's application regarding non-deduction of TDS, purportedly found no liability on the part of the Company.

8.6 The Committee noted from the submissions of the Respondent that during the period between April 2017 and August 2017—the months during which the Company actually honoured rent cheques—the TDS was deducted and paid to the Government. The Respondent stated that these payments were reported in Form 3CD and are reflected in the payees' Form 26AS for that five-month period. He contended that after a fire damaged the leased premises, the property became unusable and the Company stopped making rent payments. Consequently, no rent expense or liability was recorded for the remaining period of FY 2017-18 and, therefore, no further TDS liability arose. The Respondent clarified that the issue was not one of cheque dishonour but of stop-payment instructions issued to the bank following the dispute with the landlord.

8.7 The Committee noted that the Respondent, as the statutory auditor, was required to verify whether TDS had been deducted and deposited in compliance with legal requirements. The Committee observed that the TDS had been deducted and deposited

for the period during which rent payments were actually made and that no payments were made thereafter due to the dispute. In view of the same, the Committee further observed that no rent expense or liability was recorded for the remaining period of FY 2017-18 and, therefore, no further TDS liability arose. Therefore, the Committee held the Respondent **NOT GUILTY** of Professional Misconduct under Clause (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

8.8 The Committee noted the **second charge** against the Respondent (as mentioned in para 2.2 above) that, the Respondent, being the Auditor, failed to report in his audit report, about the said dishonour of cheques and the non-accounting of liability regarding lease rent and compensation amount by the Company in its financial statements for the FY 2017-18.

8.9 The Committee noted that the Respondent relied on a Management Representation Letter dated 22nd August 2018 wherein the management represented that there were no contingent liabilities as on the balance sheet date. The management submitted that rent payments ceased with effect from September 2017 on the ground that the leased premises had suffered substantial damage due to a fire on 30.10.2016 and remained unfit for use thereafter. The management further contended that the landlords had failed to restore the premises despite their contractual obligation to do so. Consequently, the Company considered the lease arrangement to have been breached by the landlords and, therefore, did not recognize any further rent liability or rent expenditure in its financial statements.

8.10 The Committee noted from **Paragraph 3 of 'SA-580 – Written Representations'** is reproduced as under:

*'Although **written representations** provide necessary audit evidence, they **do not provide sufficient appropriate audit evidence on their own about any of the matters with which they deal. Furthermore, the fact that management has provided reliable written representations does not affect the nature or extent of other audit evidence that the auditor obtains** about the fulfilment of management's responsibilities, or about specific assertions'.*

8.11 The Committee noted from **Paragraph 10.4 and 68 of AS-29 – 'Provisions, Contingent Liabilities and Contingent Assets'**, read as under:

*'10.4 A **contingent liability** is:*
*(a) a **possible obligation that arises from past events and the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise**; or*
*(b) a **present obligation that arises from past events but is not recognised because**:*
***(i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation**; or*
(ii) a reliable estimate of the amount of the obligation cannot be made.

*68. Unless the possibility of any outflow in settlement is remote, **an enterprise should disclose for each class of contingent liability at the balance sheet date a brief description of the nature of the contingent liability** and, where practicable:*
*(a) **an estimate of its financial effect**, measured under paragraphs 35-45;*
*(b) **an indication of the uncertainties relating to any outflow**; and*
(c) the possibility of any reimbursement.'

8.12 The Committee noted that the Company had approached the Hon'ble Court seeking directions against the lessors for waiver/non-recovery of lease rent, however, no relief was granted by the Court. Despite having knowledge of this fact, the Respondent chose to place complete reliance on the management representation letter, wherein the Company neither recognized the liability nor disclosed any contingent liability in respect of the lease rent as on 31.03.2018.

8.13 The Committee noted that, the liability ceased because the property was not "enjoyable" after the fire, active legal proceedings were ongoing between the Company and the lessors regarding the rent. Further, the Hon'ble Civil Judge, Senior Division, Chandrapur, issued an order on July 15, 2017, refusing to grant the Company's prayer to restrain the lessors from recovering rent or encashing cheques. This judicial refusal indicated that the obligation to pay rent remained a matter of legal contention rather than a settled "cessation of liability".

8.14 The Committee noted from Accounting Standard (AS) 29 that an entity must disclose a contingent liability if there is a possible obligation arising from past events (the lease agreement and issued PDCs) whose existence will be confirmed by uncertain future events (the court's final ruling). Given the dishonoured cheques and the pending litigation, the potential outflow of resources was not "remote," thus requiring disclosure.

8.15 The Committee further noted that the Respondent admitted to relying solely on the Management Representation Letter (MRL) to justify the non-disclosure. However, SA-580 explicitly states that written representations are not sufficient evidence on their own. The Respondent was personally named in the Lease Deed and it was stated therein that Respondent was one of the seven persons whose declaration / consent was required in case of fresh induction of any person in the lease premises on consignment basis or otherwise, if the same is objected by the lessors.

8.16 The Committee noted that the Respondent was aware of this fact, he relied solely on the management representation letter without obtaining sufficient appropriate audit evidence. The Company had neither recognized nor disclosed the lease rent liability as a contingent liability in its financial statements as on 31.03.2018, even though the cheques issued towards lease rent had been dishonoured upon presentation to the bank. These circumstances indicated the existence of a material liability/dispute requiring appropriate disclosure in the financial statements. However, the Respondent failed to evaluate the implications of these facts and did not report the non-disclosure or the dishonour of cheques in his audit report. Such reliance on management representation, in the absence of corroborative evidence, reflects a lack of due diligence and professional skepticism on the part of the Respondent. Therefore, the Committee held the Respondent **GUILTY** of Professional Misconduct falling within the meaning of Clause (7) of Part-I of Second Schedule to the Chartered Accountants Act 1949.

9. Conclusion:

9.1 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 8.1 to 8.7 as above	**NOT GUILTY-** Clause (7) of Part I of the Second Schedule.
Para 2.2 as above	Para 8.8 to 8.16 as above	**GUILTY-** Clause (7) of Part I of the Second Schedule.

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

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

Sd/-
(CMA CHANDRA WADHWA)
GOVERNMENT NOMINEE

Sd/-
(CA. MAHESH SHAH)
GOVERNMENT NOMINEE

Sd/-
(CA. SATISH KUMAR GUPTA)
MEMBER

DATE: 29.08.2026

PLACE:Noida

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मीनू गुप्ता / Meenu Gupta
वरिष्ठ कार्यकारी अधिकारी / Sr. Executive Officer
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