



NATIONAL FINANCIAL REPORTING AUTHORITY

AUDIT QUALITY REVIEW REPORT (AQRR)

AUDITOR: RAJENDRA K. GOEL & CO.

Firm Registration Number (FRN): 001457N

AUDITEE: Jaiprakash Associates Limited (JAL)

Statutory Audit for FY 2017-18

DATE OF REPORT: 27th August 2021

NATIONAL FINANCIAL REPORTING AUTHORITY,

GOVERNMENT OF INDIA

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*AQR Report on Statutory Audit of JAL, FY 2017-18*List of Abbreviations

1.	AS	Accounting Standard
2.	AGM	Annual General Meeting
3.	AQR	Audit Quality Review
4.	BJCL	Bhilai Jaypee Cement Limited
5.	BOD	Board of Directors
6.	CARO	Companies Auditors Report Order
7.	CCI	Competition Commission of India
8.	DAS	Debt Assets Swap
9.	DRP	Debt Realignment Plan
10.	EOM	Emphasis of Matter
11.	EP	Engagement Partner
12.	EQCR	Engagement Quality Control Review
13.	ET	Engagement Team
14.	FY	Financial Year
15.	HAL	Himalayaputra Aviation Limited
16.	HEL	Himalaya Expressway Limited
17.	ICAI	Institute of Chartered Accountants of India
18.	ICFR	Internal Controls over Financial Reporting with respect to Financial Statements
19.	Ind AS	Indian Accounting Standard
20.	IT	Information Technology
21.	JAL	Jaiprakash Associates Limited
22.	JCCL	Jaypee Cement Corporation Limited

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23.	JIDL	Jaypee Infrastructure Development Limited
24.	JIL	Jaypee Infratech Limited
25.	JLF	Joint Lenders Forum
26.	JPVL	Jaiprakash Power Ventures Limited
27.	KFCL	Kanpur Fertilizers and Cement Limited
28.	MRA	Master Restructuring Agreement
29.	NCA	Non Current Assets
30.	NCLT	National Company Law Tribunal
31.	NFRA	National Financial Reporting Authority
32.	OCL	Orient Cement Limited
33.	PPGCL	Prayagraj Power Generation Company Limited
34.	RBI	Reserve Bank of India
35.	ROMM	Risk of Material Misstatement
36.	RPT	Related Party Transaction
37.	SA	Standards on Auditing
38.	SPV	Special Purpose Vehicle
39.	SQC	Standards on Quality Control
40.	TCWG	Those Charged with Governance
41.	WP	Work Paper

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1. INTRODUCTION

- 1.1** Section 132(2)(b) of the Companies Act, 2013 requires the National Financial Reporting Authority (NFRA) to, inter alia, monitor and enforce compliance with accounting standards and auditing standards in such manner as may be prescribed.
- 1.2** Rule 8 of the NFRA Rules, 2018 provides that for the purpose of monitoring and enforcing compliance with auditing standards under the Act, NFRA may–
- a) review working papers (including audit plan and other documents) and communications related to the audit;
 - b) evaluate the sufficiency of the quality control system of the auditor and the manner of documentation of the system by the auditor; and
 - c) perform such other testing of the audit, supervisory, and quality control procedures of the auditor as may be considered necessary or appropriate.
- 1.3** The statutory audit of Jaiprakash Associates Limited (JAL) for the financial year 2017-18 (the “Engagement”) was carried out by Rajendra K. Goel & Co. (Firm Registration No. ICAI FRN 001457N) (“Audit Firm/” Auditor”). Pursuant to the Companies Act and the NFRA Rules, NFRA commenced an Audit Quality Review (AQR) of the statutory audit of JAL for the year 2017-18 and arrived at Prima Facie Conclusions (PFC), which were detailed in the PFC Report dated 30th September 2020. The response of the Audit Firm to the PFC Reports was received on 28th November 2020. A Draft Audit Quality Review Report (DAQRR) was issued on 30th March 2021. The Audit Firm submitted its written reply in response to the DAQRR on 14th June 2021. Further, NFRA provided the Audit Firm with a chance for oral hearing on 20th August 2021. However, the Audit Firm did not wish to avail of the opportunity afforded for an oral hearing. In their email of 10 Aug, 2021, in reply to NFRA’s email of 5 Aug, 2021, informing them about the oral hearing, the Audit firm stated that:
- “We would like to state that we have submitted all the detailed replies to Questionnaire, PFC and DAQRR of NFRA. We have no further submission in addition to our previous replies submitted to NFRA.*
- There have been some lapses on our part regarding obtaining documentation but we conducted audit ethically with full honesty, integrity, and with complete independence. Further we would like to bring to your notice that, we have now amended our procedures to ensure that proper documentation is kept at every stage of conducting audit”.* Given this reply, the oral hearing was cancelled.
- 1.4** NFRA has prepared this Audit Quality Review Report (AQRR) on the basis of examination of the Audit File and other information sought from the Audit Firm from time to time, during the

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course of examination of the working papers, and the responses submitted by the Audit Firm to NFRA's PFC Report and DAQRR Report.

- 1.5** The chronology of the events regarding AQR of the statutory audit of JAL for the financial year 2017-18 carried out by Rajendra K. Goel & Co., including details of communications between NFRA and the Audit Firm, is at **Annexure 1**.

Summary of AQRR

- 1.6** The following is a summary of the most important observations of the AQRR. Details of the evidence in support of these observations, and the reasoning leading thereto are provided in the later Sections of this AQRR.

- a) The Audit Firm's reporting in the "Basis of opinion" section of Independent Auditors Report is false and misleading. The impact of the transactions violative of accounting and auditing standards, as identified in this AQRR are such that the profit before tax of Rs. 351.71 crores, as reported in the financial statements, would have turned into a loss of at least Rs. 3,215.77 crores. This impact is both material and pervasive. As a result, the Audit Firm was bound, under the SAs, to issue an adverse opinion (Para 8 of SA 705).
- b) The Audit Firm did not obtain sufficient appropriate audit evidence to understand the impact that the insolvency petition against JIL had on the Company (JAL). Further, the Audit Firm did not perform any audit procedures to understand as to why the Company (JAL) was made a party to this insolvency petition. This indicates gross negligence and total lack of due diligence on the part of the Audit Firm. Even assuming, but not admitting, that the Audit Firm was not able, after exercising due diligence, to ascertain the impact of the pendency/ongoing CIRP/legal proceedings of JIL with the NCLT Allahabad and the Hon'ble Supreme Court of India, the Audit Firm should have issued a disclaimer of opinion.
- c) The Audit Firm compromised with the effectiveness of the auditor's report by widespread use of Emphasis of Matter (EOM) Paragraphs. The Audit Firm has provided eight EOMs in the financial statements of FY 2017-18. Para A3 of SA 706 states that widespread use of Emphasis of Matter Paragraphs diminishes the effectiveness of the auditor's communication of such matters. Further, the Audit Firm failed to obtain sufficient appropriate audit evidence for providing these EOMs that was required as per SA 706.
- d) The Audit Firm has failed to appropriately and sufficiently evaluate the use of going concern basis of accounting by the Management and thus failed to note the implications thereon in the Auditor's Report.

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- e) In assessing ROMM, the Audit Firm did not satisfactorily rebut the presumption of ROMM due to fraud in respect of revenue recognition and management override of controls. This ultimately resulted in several violations of applicable provisions of Ind AS and SAs.
- f) The Audit Firm had not identified and assessed ROMM through understanding the entity and its environment, including the entity's internal control. There were no ROMM procedures performed by the Audit at the assertion level. The Audit Firm has failed to perform the audit with professional skepticism and has failed to obtain sufficient appropriate audit evidence to reduce ROMM to an acceptably low level.
- g) JAL's financial exposure in its subsidiaries, associates and joint ventures amounting to Rs. 6,894.02 crore was not properly valued as per the applicable Accounting Standards. The Audit Firm failed to obtain sufficient appropriate evidence on correct valuation of JAL's investment in these entities.
- h) The Company's accounting treatment for Non-Current Assets held for sale was not in accordance with the accounting standards, which led to a huge misstatement in the financial statements. The Audit firm also failed to obtain sufficient appropriate audit evidence in this regard.
- i) The Audit Firm has made a complete travesty of the EQCR process by appointing the EP himself as its EQCR Partner, thereby negating the very fundamental objectives of the SAs.
- j) The Audit Firm has failed to maintain audit documents as per the requirements of SA 230. The integrity and reliability of the Audit File is questionable due to inconsistencies arising out of such lack of documentation.

1.7 While reference has been made in most cases to SAs which have a direct bearing on the issues under consideration, it needs to be borne in mind that certain generally applicable requirements of the SAs, such as the need to exercise professional skepticism, the need to obtain sufficient appropriate audit evidence, performance of procedures to address the assessed risks, etc., are integral in all individual cases discussed in the AQR even if they are not specifically included in individual paragraphs of the Report.

1.8 Based on the conclusions in the AQR, it appears that the Audit Firm has failed to meet the requirements of the SAs while forming their opinion on the Company's Financial Statements for FY 2017-18. The instances discussed in this Report are of such significance that, in the NFRA's view, the Audit Firm did not have sufficient justification for issuing the Audit Report asserting that the audit was conducted in accordance with the SAs. NFRA draws attention to Response 12 in the ICAI's Implementation Guide on Reporting Standards (November 2010 edition) that says that **"a key assertion that is made in this paragraph is that the audit was**

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conducted in accordance with the SAs”; and that “**If during a subsequent review of the audit process, it is found that some of the audit procedures detailed in the SAs were not in fact complied with, it may tantamount to the auditor making a deliberately false declaration in his report and the consequences for the auditor could be very serious indeed**” (emphasis added). Failure to comply with any of the requirements of applicable SAs indicates that the Audit Firm has failed to achieve the central purpose of audit, and that there was not an adequate basis to issue the report it did.

- 1.9 This AQR is designed to identify and highlight non-compliance with the requirements of the SAs, and to bring out insufficiencies in the Quality Control System of the Audit Firm and the shortcomings in the documentation of the audit process. The AQR also evaluates the quality and adequacy of the supervisory procedures of the Audit Firm. The AQRR is, therefore, not to be treated as an overall rating tool.

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2. INDEPENDENT AUDITOR'S REPORT ON STANDALONE FINANCIAL STATEMENTS

2.1 Based on response of the Audit Firm to the NFRA's questionnaire dated 30th September 2019, NFRA had conveyed the following prima facie conclusions on 30th September 2020:

- a) The Audit Firm in their response to NFRA Query 1, has stated, *“Qualified opinion was given in terms of Para 7(a) of SA 705 as ET has obtained sufficient appropriate audit evidence to conclude that misstatement is material but not pervasive. ET has evaluated the recoverability of investments made in JIL, which ET assessed that the recoverable amount of investment would be between the cost of acquisition of shares and its market price as on 31st March, 2018. Other recoverable like current receivables, corporate guarantees are also recoverable as the balance sheet of JIL is healthy and as per the management's impairment testing, the distress value of the company diminished the value of recovery which is material but not pervasive. Deposit of Rs. 550 crores to the treasury of Hon'ble Supreme Court of India was also recoverable but the recovery of the amount was unascertainable and depended on the decision of the Apex Court. However, if the amount is not refunded back by Hon'ble Supreme Court of India the same should be recovered back from JIL against which material loss may arise but not pervasive in view of the above mentioned reason.”*
- b) The Audit Firm has referred to WPs 'A1-5(a) Pg. No. 6-48', which contains the Annual Report of JIL, 'A1 Pg. No. 107 Pt. No. 19.02' which documented the Management representation letter reiterating the facts presented in Note No. 41, 'A 3.4(b) Pg. No. 3' which contains 'Note on impairment of investments in JIL' and 'A 3.1 Pg. No. 3' which documented the auditor's discussion with the management, wherein the Audit Firm has inquired from the management as to why the investments in JIL should not be impaired to which the management has responded as *“On the basis of book value of JIL we feel it certain that our receivables are fully recoverable from JIL and due to uncertain current situation it is not practically possible to adjust these book values on any scientific basis. However, the same shall be disclosed in the financial statements.”* In the remarks column, the Audit Firm has noted *“Not satisfied. Matter to be reported in qualified opinion Para as the amount involved is material.”* However, there is no documentation of what observations were made by the Audit Firm from the above referred WPs, except inquiring from the management as to why the investments should not be impaired and concluding based on the management reply that a qualified opinion has to be issued as the amount involved is material. The bases for their conclusions were also not forming part of the WPs.

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c) NFRA has carefully examined the Audit File vis-à-vis the Independent Auditor's Opinion and observes that there were sufficient evidentiary circumstances to conclude that the parent company (JAL) net worth had substantially eroded because of its exposure in JIL, which was both material and pervasive to the Company's financial statements. This should have resulted in an adverse opinion of the auditor instead of a qualified opinion in terms of Para 8 of SA 705. By failing to do so, the Audit Firm has failed to discharge its professional duties in alerting the Company's governance, statutory authorities, regulators and users at large of the Company's precarious financial status in meeting its financial liabilities towards lenders and home buyers in totality. NFRA's observations are based on the following facts of the case:

(i) NFRA has noted from JAL's Annual Report that Jaypee Infratech Limited (JIL) was set up as a special purpose vehicle (SPV) of JAL in April 2007 for construction of an expressway from Noida to Agra as part of Yamuna Expressway. JAL holds 60.98% of the SPV's shares, the balance shares being held by general public.

(ii) Note 41 of the Standalone Financial statements states that:

"IDBI Bank Limited had filed petition with Hon'ble NCLT, Allahabad Bench U/s 7 of Insolvency & Bankruptcy Code, 2016 in respect of Jaypee Infratech Limited [JIL] [subsidiary of the company] which was admitted vide order dated 9th August 2017 and Interim Resolution Professional (IRP) was appointed to carry the functions as mentioned under the Code.

While admitting the Petitions/Interventions filed by certain home buyers of Jaypee Infratech Limited, Hon'ble Supreme Court, vide its various Orders gave directions to Jaiprakash Associates Limited to deposit a sum of Rs. 2,000 crores with the Court on 11th September 2017, which was modified vide its order(s) dated 22nd November 2017 and 21st March, 2018 to deposit in installment an amount of Rs. 750 crores by 10th May 2018. The company has deposited Rs. 750 crores (including Rs. 550 crores till 31st March 2018) with the Hon'ble Supreme Court till date."

(iii) NFRA has noted that the Company's total exposure in JIL was to the tune of Rs 2173.18 crore, which constituted a substantial 21% of the entire net worth of JAL. The exposure in JIL includes non-current investments held by the company in JIL (Rs. 849.26 cr), current receivables from JIL (Rs. 341.75 cr), corporate guarantee (Rs. 232.17 cr) and deposit with the Supreme Court (Rs.

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750 cr). The Audit Firm failed to red flag the violation of the requirements of Ind AS 36, Ind AS 28 and Ind AS 109 which has resulted in overstatement of profits of the company for the FY 2017-18 by at least Rs. 1,567.48 crores, hence clearly affecting the true and fair view of the Company's financial statements.

- (iv) NFRA is of the view that by giving a qualified opinion, the Audit Firm completely failed to consider the **pervasive impact of very material misstatements** in the Company's Financial Statements for the FY 2017-18. Para 5(a) of SA 705 provides the instances of the pervasive effects on the Financial Statements which include specific elements, accounts or items of financial statements that represents or could represent a substantial proportion of financial statements. JAL has reported a net worth of Rs. 10,331.13 crores as at 31st March, 2018. JAL's exposure in JIL constituted one fifth (21%) of its total net worth. It was clear that the Company was at very high risk of losing substantial portion of its net worth due to the precarious financial condition of the SPV resulting from various litigations including bankruptcy proceedings. Further the management had clearly overstated its investments and equity in JIL in blatant violation of the Standards. The Audit Firm was therefore required to evaluate whether the effects of the misstatements in the aggregate is material and pervasive to the financial statements, taken as a whole. Notwithstanding the above, it is to be noted that when the accounting standards notified under section 133 of the Companies Act, 2013 have not been complied with, the financial statements do not give a true and fair view of the state of affairs of the company. For our detailed comments on violations of accountings standards, please refer to 'Investments, NCA classified as held for sale and Revenue' sections of this PFC.
- (v) The Audit Firm's response completely **contradicts** the basis of opinion stated by the auditor in the Independent Auditor's report where the auditor has stated that: *"In view of the pendency/ongoing CIRP/legal proceedings with the NCLT Allahabad and the Hon'ble Supreme Court of India, the impact on carrying value of the Non-current Investments in the equity of JIL Rs. 849.26 crores, current receivables Rs. 341.75 crores, corporate guarantees amounting to Rs. 232.17 crores, to the lenders of JIL and deposit with the Hon'ble Supreme Court of India, is not ascertainable"*
- (vi) The Audit Firm's claim that it had evaluated that JAL's investments in JIL were recoverable, as well as other receivables were recoverable as JIL's

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balance sheet was “healthy”, completely contradicts the Firm’s opinion in the Auditor’s Report where these have been stated as “not ascertainable”. NFRA is therefore not unjustified in observing that the Audit Firm’s response to NFRA’s questionnaire is an attempt to mislead NFRA, rather than a statement based on actual work done by the Audit Firm.

(vii) The Audit Firm has misled NFRA by making a false statement that if the deposit of Rs. 550 cr is not recovered from Supreme Court, it will be recovered from JIL. This statement of the Audit Firm is not supported by their working papers and therefore cannot be accepted as a credible statement. There is no record in the Audit File which explains the Audit Firm’s contention that they have sought and verified the legal opinions and if the case is lost, then JIL will repay the parent company. The Audit Firm should have actually evaluated the credit worthiness of JIL to repay such huge amounts to its parent company, JAL.

d) SA 330 stipulates that if the auditor has not obtained sufficient appropriate audit evidence as to a material financial statement assertion, the auditor shall attempt to obtain further audit evidence. If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall express a qualified opinion or a disclaimer of opinion. Further, it is very important that the auditor in terms of SA 230, “Audit Documentation”, also document in his work papers, how and why he reached this professional judgment. The auditor has to evaluate the situations carefully before making his judgment as to the nature of modification. None of the work done by the auditor meets the stringent requirement of the auditing standards, and therefore there is no basis whatsoever for NFRA to evaluate the sufficiency of evidence leading to formation of the auditor’s opinion.

The Audit Firm has clearly failed to recognize the implication of JIL’s legal wrangles and the management’s attempts at shoring up the company’s books of accounts by violating the accounting standards which constituted sufficient evidentiary circumstances for the Audit Firm to conclude that the parent company (JAL) net worth in its subsidiary, Jaypee Infratech Limited (JIL), had completely eroded, which was both material and pervasive to the Company’s financial statements. This should have resulted in an adverse opinion by the auditor instead of a qualified opinion in terms of Para 8 of SA 705.

e) Hence, NFRA is of the view that the implication of JAL’s exposure in JIL was far from being “*not ascertainable*” as claimed by the Audit Firm, and undoubtedly established grounds for an adverse opinion by the auditor rather than a mere qualification. The

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Audit Firm has failed to obtain sufficient appropriate audit evidence so as to afford a reasonable basis for the independent auditor's opinion.

- 2.2** The Audit Firm in its response, to NFRA's prima-facie comments, dated 28th Nov 2020, quoted Para 7b of SA 705, Para 8 of SA 705 and further stated that "*Investments in JIL of Rs. 849.26 crores were not fully diluted as same stands recoverable to the extent of market value of shares as on 31st March 2018. A qualification to this effect of not being able to ascertain the value of investments in JIL was given in Audit Report. Further, JAL investments in Equity of JIL is only 12.07% of the company's total investments. Realizable value of current receivables of Rs. 341.75 crores from JIL could not be ascertained as CIRP proceedings were initiated against JIL and the matter was upheld at the level of Apex court, hence a qualification to that effect is given in the Audit Report. However, in the judgment of ET, this does not have pervasive effect on the financial statements. Further, JAL is regularly receiving payments from JIL against the work done by JAL. Corporate guarantees given to the lenders of JIL were not settled as at 31st March, 2018 and hence stands recoverable. As stated in our previous response to NFRA, the recovery of deposit amount with Hon'ble Supreme Court to the tune of Rs. 550 crores till 31st March 2018 was also unascertainable. If the amount is not refunded by Supreme Court then the same shall be recovered from JIL, this is based on management understanding. All the amounts due from JIL are recoverable as the Balance Sheet of JIL was healthy and as per management's impairment testing, the distress value of the company diminished the value of recovery which is material but not pervasive. All the above nature of transactions were of Standalone and impacted only particular stream of accounts rather than having pervasive impact on financial statements or revenue generating capability of the company. These do not impact the future viability of the business of JAL to continue as a going concern and hence not pervasive in nature. Given the recoverability ideology, we didn't consider 100% dilution of 21% net worth stake of JAL in JIL, therefore, ET didn't trigger the pervasive attribute of the SA 705. Also, the impact was limited only to company's exposure into JIL (to the capping of 21%) and not to remaining 79% of its business operations. There has been no intention or any attempt to mislead NFRA. There is no agreement to show that JIL would in fact payback the dues to JAL in case the same are not recoverable and hence, no WP is referred to support the fact. However, as per our discussion with management, the intention and understanding of payback by JIL was drawn and accordingly qualified opinion was given by us."*
- 2.3** NFRA had examined the above contentions of the Audit Firm, received in response to the above noted NFRA's PFC, and had concluded as follows in its DAQRR dated 30th March 2021:

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- a. NFRA has noted that the Audit Firm has not referred to any WPs in support of their contentions and hence, NFRA reiterates its observations made in its PFC that the Audit Firm's contentions that the Balance Sheet of JIL was healthy and thus current receivables of Rs. 341.75 crores, corporate guarantees of Rs. 232.17 crores, deposits with Hon'ble Supreme Court of Rs. 550 crores till 31st March 2018 are completely recoverable is arbitrary and without any basis, as there are no WPs referred to by the Audit Firm which documents their conclusions that the Balance Sheet of JIL was in fact 'healthy'. In view of the fact that there is no documentation whatsoever available to support the statements of the Audit Firm that have been quoted in the above Para, all those statements shall be treated as devoid of any evidentiary value and as mere afterthoughts. The absence of any documentation shows that these conclusions cannot be held to have been arrived at during the audit process. Notwithstanding the above, NFRA has examined these matters further and has reached the following conclusions.
- b. Perusal of WP '*File AI-5(a) Pg. No. 6-48*', (contains the Audited financial statements of JIL) clearly establishes that the contentions of the Audit Firm are unacceptable due to the following reasons:
- 1) JIL incurred a loss of Rs. 1,818.37 cr in FY 2017-18 and its market capitalization (JIL) as on reporting date was Rs. 1,166.68 cr. [138.89 Cr shares of Rs. 8.40/- each as on 31.03.2018] while the carrying value of net assets of JIL as on the reporting date was Rs. 3,312.21 cr.
 - 2) Further, as on the date of signing off of the Audit Report (i.e., May 19, 2018), the market capitalization of the company was only Rs. 830.56 crores [138.89 Cr shares of Rs. 5.98/- each as on 19.05.2018] as compared to its carrying value of Rs. 3,312.21 cr.
 - 3) The company (JIL) was facing serious legal challenges in various forums of the country's judiciary.

These facts clearly establish that the financials of JIL were not healthy. In the case of the deposit of Rs. 550 crores till 31st March 2018 with Hon'ble Supreme Court, the Audit Firm have themselves admitted to the fact that there is no agreement between JAL and JIL which shows that in case the amount is not refunded back by the Apex Court, then the same would be paid back by JIL. Further, the Audit Firm's contentions that investments in JIL of Rs. 849.26 crores "were not fully diluted" as the same stands recoverable to the extent of the market value of shares as on 31st March 2018, cannot be accepted as these contentions are in violation of requirements of Para 59 of Ind AS 36. Para 59 of Ind AS 36 states that if and only if recoverable amount of an asset (Rs. 711.48 cr in the case of JIL) is less than its carrying amount (Rs. 849.26 cr in the case

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of JIL), then the carrying amount of the asset shall be reduced to its recoverable amount (for our observations on impairment of investments please refer to “Investments” section of this DAQRR). Para 8(c) of SA 230 states that the auditor shall prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions. Para A9 of SA 230 states that documentation of the professional judgments made, where significant, serves to explain the auditor’s conclusions and to reinforce the quality of the judgment. On a plain reading of these requirements of SA 230, one can clearly conclude that the significant judgments made in the audit shall be documented by the auditor. The contentions made by the Audit Firm that “... *However, in the judgment of ET, this does not have pervasive effect on the financial statements*” are completely unacceptable as these are nowhere documented, and no WP references were provided by the Audit Firm in support of these contentions. For our observations on “pervasive effects on financial statements” please refer to Para 1.2 e) below.

- c. The Auditor has, in the Independent Auditor’s Report, expressed a qualified opinion on the standalone financial statements of the Company for FY 2017-18. The auditor has stated the following as the basis of the qualified opinion:

The insolvency petition filed by IDBI Bank with Hon’ble NCLT, Allahabad against Jaypee Infratech Limited (‘JIL’) “subsidiary” of the company. The petition has been admitted and Interim Resolution Professional (‘IRP’) personnel has been appointed by the NCLT. The Hon’ble Supreme Court of India also admitted the Petition/Intervention filed by certain home buyers of Jaypee Infratech Limited and directed the Company to deposit Rs. 2,000 crores with its Registry. The said order was modified by the Hon’ble Supreme Court of India and accordingly company has deposited Rs. 550 crores upto 31 March 2018.

In view of the pendency/ongoing CIRP/legal proceedings with the NCLT Allahabad and the Hon’ble Supreme Court of India, the impact on carrying value of the Non-current Investments in the equity of JIL Rs. 849.26 crores, current receivables Rs. 341.75 crores, corporate guarantees amounting to Rs. 232.17 crores, to the lenders of JIL and deposit with the Hon’ble Supreme Court of India, is not ascertainable.”

The above extract in the Independent Auditor’s Report gives the impression that the initial order of Supreme Court to deposit Rs. 2,000 crores was modified to restrict the deposit to only Rs. 550 crores. NFRA has perused the order of the Supreme Court in the relevant case ‘*Writ Petition (Civil) No 744 of 2017*’. This shows that the above

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impression of the Supreme Court's orders sought to be conveyed by the Independent Auditors Report is totally misleading and can only be described as a deliberate attempt to mislead the readers of the Auditor's report by completely distorting and misrepresenting the Supreme Court orders.

In various orders of the Supreme Court, the details of which are provided in the table below, the Supreme Court has not reduced the amount of deposit from the original Rs. 2,000 crores to a lower amount of Rs. 550 crores but had only extended the time to comply with the said orders:

Date of the Order	Order details (emphasis added by NFRA)
11.09.2017	<p><i>“Having heard learned counsel for the parties at length, in modification of the order dated 04.09.2017, we issue the following directions:</i></p> <p><i>a) The IRP shall forthwith take over the Management of JIL. The IRP shall formulate and submit an Interim Resolution Plan within 45 days before this Court. The Interim Resolution Plan shall make all necessary provisions to protect the interests of the home buyers;</i></p> <p><i>b) Mr.Shekhar Naphade, learned senior counsel along with Ms.Shubhangi Tuli, Advocate-on-Record, shall participate in the meetings of the Committee of Creditors under Section 21 of the Insolvency and Bankruptcy Code, 2016 to espouse the cause of the home buyers and protect their interests;</i></p> <p><i>c) The Managing Director and the Directors of JIL and JAL shall not leave India without the prior permission of this Court.</i></p> <p><i>d) JAL, which is not a party to the insolvency proceedings, shall deposit a sum of Rs.2,000 crores (Rupees two thousand crores) before this Court on or before 27.10.2017. For the said purpose, if any assets or property of JAL have to be sold, that should be done after obtaining prior approval of this Court. Any</i></p>

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	<p><i>person who was a Director or Managing Director of JIL or JAL on the date of the institution of the insolvency proceedings against JIL as well as the present Directors/Managing Director shall also not leave the country without prior permission of this Court. The foregoing restraint shall not apply to nominee Directors of lending institutions (IDBI/ICICI/SBI);</i></p> <p>e) <i>All suits and proceeding instituted against JIL shall in terms of Section 14(1)(a) remain stayed as we have directed the IRP to remain in Management.”</i></p>
25.10.2017	<p><i>“..... We are not inclined to entertain the application for modification of the order dated 11th September 2017. However, we extend the time to deposit the sum of Rs.2000 crores (Rupees two thousand crores) till 5th November 2017. The interlocutory application is, accordingly, disposed of.”</i></p>
22.11.2017	<p><i>“We think it would be appropriate to direct as follows: -</i></p> <p>a) <i>A Demand Draft of Rs.275 crores be deposited by Mr. Anupam Lal Das, learned counsel appearing for the company, before the Registry of this Court, today.</i></p> <p>b) <i>A sum of Rs.150 crores be deposited by 13.12.2017.</i></p> <p>c) <i>A further sum of Rs.125 crores be deposited by 31.12.2017.</i></p> <p>d) <i>Neither the independent directors nor the promoter directors shall alienate their personal properties or assets in any manner, and if they do so, they will not only be liable for criminal prosecution but contempt of the Court.</i></p> <p>e) <i>That apart, we also direct that the properties and assets of their immediate and dependent family members should also not be transferred in any manner, whatsoever.</i></p>

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	<i>Needless to say that direction for deposit of Rs.2,000 crores shall remain as it is. The only indulgence is to pay the same in installments.”</i>
10.01.2018	<p><i>“Having heard learned counsel for the parties, we are inclined to pass the following directions: -</i></p> <p><i>(i) Jaiprakash Associates Limited (JAL) shall file an affidavit stating therein as to how many housing projects it has throughout the country and the stage of their construction. The said affidavit shall be filed within a week hence.</i></p> <p><i>(ii) Mr. Pawan Shree Agarwal learned Amicus Curiae shall create an independent web-portal in respect of the home buyers of JAL, which shall reflect the details of the home buyers.</i></p> <p><i>(iii) The web-portal created by Mr. Pawan Shree Agarwal qua Jaypee Infratech Limited (JIL) shall be kept alive.</i></p> <p><i>(iv) The application filed by the Reserve Bank of India seeking permission to move NCLT shall be considered at a later stage.</i></p> <p><i>(v) The independent Directors of the JAL need not remain personally present on every date of hearing unless so directed by this Court. The independent Directors shall not leave the country without leave of this Court.</i></p> <p><i>(vi) The earlier order of injuncting JAL to create any kind of third-party interest in the assets is reiterated.</i></p> <p><i>(vii) The applications for impleadment/intervention and directions filed before this Court shall be served on Mr. Pawan Shree Agarwal.”</i></p>
21.03.2018	<p><i>“As our order for deposit of Rs.2000 crores has not been complied with, we intend to pass the following directions:</i></p> <p><i>a) JAL shall deposit a further sum of Rs.200 crores in two instalments, as agreed by the Managing Director who</i></p>

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	<p><i>is present in Court today. The first instalment of Rs.100 crores shall be deposited by 15th April 2018 and the second instalment of Rs.100 crores shall be deposited by 10th May 2018.</i></p> <p><i>b) It is submitted by Mr. Pawan Shree Agrawal, learned amicus curiae that as per his portal an amount of Rs.1300 crores, at present, is required to be refunded towards the principal sum for those home buyers who, as of today, seek refund. The figure of Rs.1300 crores is as per the record of JAL. In view of the aforesaid, we would require Mr. Agrawal to prepare a projectwise Chart indicating the number of persons in respect of that project and the stage of completion of the respective projects so that appropriate order can be passed for disbursement of the amount on pro-rata basis to the home buyers.</i></p> <p><i>c) Mr. Agrawal learned amicus curiae shall keep the portal operational. However, the requests of only those persons on the portal who have sought refund, as of today will be considered at this stage.</i></p> <p><i>d) The submission of the home buyers who are seeking refund is that the developer is making demands towards monthly instalments. We direct that no demand towards outstanding or future instalments shall be raised by the developer to the flat buyers who have, as of today, expressed the option to obtain refund. The demands raised by the developer in respect of the home buyers who have already opted for refund till today, shall remain stayed;</i></p> <p><i>e) The IRP may proceed to finalise the resolution plan but the same shall be implemented after taking leave of this Court.</i></p>
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	f) <i>The National Company Law Tribunal (NCLT) shall decide subject to the directions which we have given hereinabove.”</i>
16.05.2018	<i>“Having heard learned counsel for the parties at length, it is directed that the Jai Prakash Associates Ltd. (JAL), the holding company of Jaypee Infratech Ltd. (JIL) shall deposit a further sum of Rs. 1,000 crores jointly and severally by 15.6.2018. Subject to the said deposit, there shall be a stay of further proceedings only insofar as the liquidation is concerned. In the meantime, Interim Resolution Professional (IRP) shall remain in management. If the amount is not deposited by 15.6.2018, the statutory proceedings shall continue.”</i>

It can be clearly established from the above (order passed just 3 days before signing off of the Audit Report) that the order has not reduced the amount of deposit from the original Rs. 2,000 crores to a lower amount of Rs. 550 crores but had only extended the time to comply with the said order. Hence, the Audit Firm’s reporting in the “Basis of opinion” section of the Independent Auditor’s Report is false and misleading. Given the very clear directions of the Supreme Court, no reasonable person could have interpreted the relevant orders of Supreme Court, the extracts of which have been given above in such a manner as to state that *“The said order was modified by the Hon’ble Supreme Court of India”* unless the said person indulged in a deliberate attempt to deceive and mislead the users of the financial statements. This action of the Audit Firm clearly appears to tantamount to fraud and the Audit Firm is liable under section 447 of the Act.

- d. Given the above facts, the ET should have questioned and sought explanations from Management and TCWG as to:
- 1) Why JAL is made a party liable in the petition filed by certain home buyers of JIL in the Supreme Court?
 - 2) Why the Supreme Court had directed JAL to deposit Rs. 2,000 crores with its Registry?
 - 3) Why a liability of Rs. 2,000 crores is not provided in the Books of Accounts of JAL, in spite of having legal obligation to do so?

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- 4) What the ultimate amount of liability would be given that Rs. 2,000 crores was only an initial deposit ordered by the Supreme Court?
- 5) What mechanisms, if any, were available for the recovery of this amount from JIL?

However, there are no WPs in the Audit File, which explains that the ET had documented the inquiries made and the explanations sought from the Management and TCWG on such a crucial matter. Being a legal matter of such magnitude, the Audit Firm should have obtained its own independent legal opinion on the liability arising out of this order of the Supreme Court.

- e. The term '*Pervasive*' is defined in Para 5(a) of SA 705 as pervasive is a term used, in the context of misstatements, to describe the effects on the financial statements of the misstatements or the possible effects on the financial statements of misstatements, if any, that are undetected due to an inability to obtain sufficient appropriate audit evidence. Pervasive effects on the financial statements are those that, in the auditor's judgement:

- (i) Are not confined to specific elements, accounts or items of the financial statements;
- (ii) If so confined, represent or could represent a substantial proportion of the financial statements; or
- (iii) In relation to disclosures, are fundamental to users' understanding of the financial statements.

The impact of not charging the liability (deposit of Rs. 2,000 crores) and impairment loss (Rs. 1,567.48 crores) (for our observations on impairment of investments, please refer to "Investments" section of this DAQRR) to profit and loss account is that it has resulted in profit before tax of Rs. 351.71 crores. Had the company charged the liability of Rs. 2,000 crores and also the impairment loss of Rs. 1,567.48 crores to Profit & Loss A/c, as was required in the circumstances, the loss would have been Rs. 3,215.77 crores (Rs. 351.71 crores – Rs. 2,000 crores - Rs.1,567.48 crores). Since the impact of the above transactions is such that the profit before tax (Rs. 351.71 cr) would have turned into a loss (Rs. 3,215.77 cr), this would definitely have to be considered as a material and pervasive effect on the financial statements. Hence, the Audit Firm should have provided an Adverse Opinion instead of a qualified opinion in terms of Para 8 of SA 705.

- f. Therefore, NFRA concludes that the Audit Firm has:

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- i) Failed to obtain sufficient information which is necessary for expression of an opinion or its exceptions are sufficiently material to negate the expression of an opinion;
- ii) Not exercised due diligence, and has been grossly negligent in the conduct of their professional duties;
- iii) Not carried out the audit according to Standards on Auditing;
- iv) Not disclosed complete information to users of Financial Statements as required under relevant Financial Reporting Framework; and
- v) Not maintained professional skepticism, professional competence and due care and other ethical requirements during the audit
- vi) Not provided an Adverse Opinion on the financial statements when the Standards of Auditing required it to do so.
- vii) Deliberately misrepresented the orders of the Supreme Court in a manner that can be interpreted only as having been done with an intent to deceive the users of the financial statements.
- viii) Not ensured compliance with the provisions of the Companies Act, 2013.

2.4 In communication dated 14th June 2021 the Audit Firm has submitted its response to the DAQRR dt. 30th March 2021 issued by NFRA, as follows:

- a. *As stated in the reply to NFRA's prima-facie comments dated 28th Nov 2020, audit firm's opinion on these misstatements is material but not pervasive due to following reasons –*

Investment in subsidiary (JIL) having book value of Rs. 849.26 crore is not fully diluted as the same stands recoverable to the effect of market value of shares of JIL as on 31 March 2018. A qualification to the effect of not being able to ascertain the value of the investment was given into the audit report as per above facts. The impact of JAL's investment value in its subsidiary affects particular class of accounts in the financial statement. JAL investment in JIL Equity represents only 12.07% of its total investments however dilution in the value is only as explained in Investment section of this response. In the judgement of audit firm, this does not have a pervasive effect to its major operations/revenue stream.

The realizable value of current receivables of Rs. 341.75 crores from JIL standing as at 31 March 2018 could not be ascertained as CIRP proceedings were initiated against JIL and the same matter was upheld at the level of the Apex Court, hence a qualification

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to that effect is stated in the audit report. However, in the judgement of auditor, this does not have pervasive effect on the financial statement. Further JAL has also received advance from JIL and having outstanding amount as at 31.03.2018 in its books of accounts. JAL is regularly receiving payments from JIL against the work done by the JAL.

Corporate guarantees given to lenders of JIL were not settled as at 31 March 2018 hence stands recoverable as on 31 March 2018.

Nature of deposit of Rs. 550 Crores with Hon'ble Supreme Court of India is pending settlement of the litigation filed against JIL. As stated in our previous response to NFRA, the recovery of the amount was unascertainable and depended on the decision of the Apex court. Also, if the amount is not refunded back by Hon'ble Supreme Court of India, the same shall be recovered back from JIL, this is based on the management understanding.

All of above nature of transactions were standalone and impacted only particular stream of accounts rather than having a pervasive impact on financial statements or revenue generating capabilities of the business. These do not impact the future viability of the business of JAL to continue as a going concern hence not pervasive in nature to our understanding of forming the said opinion.

We further state that, the exposure in JIL was not completely diluted since the same stands recoverable to the market value of shares of JIL as at 31 March 2018. Further other receivables are also not 100% diluted as reasons stated above for each component. Audit team also addressed this matter in the audit report by including a qualification (red flag).

JAL's exposure of 21% net worth in JIL was at stake due to JIL's on-going litigations, but the same was recoverable to the effect of market value of shares as at 31 March 2018. Further JAL is also receives money from JIL during the year against sale of service and JIL was also honoring the invoices raised by JAL. Since the complete exposure to JIL is not diluted, accordingly ET consider the nature of misstatements was not pervasive.

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- b. ***Response to question raised by NFRA, the Audit firm's response completely contradicts the basis of opinion stated by auditors in their report Extract of opinion stated in audit report is as follows:***

"In view of the pending/on-going CIRP/legal proceedings with the NCLT Allahabad and the Hon'ble Supreme Court of India, the impact on carrying value of non-current Investments in equity of JIL Rs. 849.26 crores, current receivables Rs. 341.75 crores, corporate guarantees amounting to Rs. 232.17 crores, to the lenders of JIL and deposit with the Hon'ble Supreme court of India, is not ascertainable"

Extract of response in our previous letter is as follow:

"Qualified opinion was given in terms of Para 7(a) of SA 705 as ET has obtained sufficient appropriate audit evidence to conclude that misstatement is material but not pervasive. ET has evaluated the recoverability of investments made in JIL, ET assessed that the recoverable amount of investment would be materially diminished but the diminution will not be pervasive on the consideration of difference between the cost of acquisition of shares and its market price as at 31st March, 2018.

Other recoverable like current receivables, corporate guarantee are also recoverable as the balance sheet of JIL was healthy and as per management's impairment testing, the distress value of the company diminished the value of recovery which is material but not pervasive.

Deposit of Rs. 550 Crores to the treasury of Hon'ble Supreme Court of India was also recoverable but the recovery of amount was unascertainable as if the amount is not refunded back by Hon'ble Supreme Court of India the same should be recovered back from JIL against which material loss may arise but not pervasive in view of the above mentioned reason"

The intent of both of above extracts is same wherein the audit firm is mentioning that the impact of these is not ascertainable, but recoverable (not mentioning the extent of recoverability, hence not ascertainable) but the degree of recoverability is not ascertained.

Accordingly a qualified opinion was construed by the audit firm in light of the facts available.

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- c. **Response to interpretation of qualification by NFRA about reduced the amount of deposit from the original Rs. 2,000 crores to a lower amount of Rs. 550 crores by Apex Court:**

ET has given the following qualification in its audit report:

Attention is drawn to:

Note No. 41 of the standalone financial statements regarding the insolvency petition filed by IDBI Bank with Hon'ble NCLT, Allahabad against Jaypee Infratech Limited ('JIL') "subsidiary" of the company. The petition has been admitted and Interim Resolution Professional ('IRP') personnel has been appointed by the NCLT. The Hon'ble Supreme Court of India also admitted the Petition/Intervention filed by certain home buyers of Jaypee Infratech Limited and directed the Company to deposit Rs. 2,000 crores with its Registry. The said order was modified by the Hon'ble Supreme Court of India and accordingly company has deposited Rs. 550 crores up to 31 March 2018.

In view of the pendency/ongoing CIRP/legal proceedings with the NCLT Allahabad and the Hon'ble Supreme Court of India, the impact on carrying value of the Non-current Investments in the equity of JIL Rs. 849.26 crores, current receivables Rs. 341.75 crores, corporate guarantees amounting to Rs. 232.17 crores, to the lenders of JIL and deposit with the Hon'ble Supreme Court of India, is not ascertainable."

NFRA interpreted this qualification in a wrong manner as stating that Auditor stated that Order of 2000 crores deposit has been converted in to 550 crores. This interpretation of NFRA is not correct due to following reasons:

Qualification has been started with word "Attention is drawn to: Note No. 41 of the standalone financial statements regarding" which were not considered by NFRA while interpretation made by NFRA. Audit firm has clearly drawn attention on the note no 41 of the standalone financial statement which state as under:

"IDBI Bank Limited had filed Petition with Hon'ble National Company Law Tribunal [NCLT], Allahabad Bench [the Bench] U/s 7 of Insolvency & Bankruptcy Code, 2016 in respect of Jaypee Infratech Limited [JIL] [Subsidiary of the Company] which was admitted vide Order dated 9th August 2017 and Interim Resolution Professional (IRP) was appointed to carry the functions as mentioned under the Code.

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*While admitting the Petitions / Interventions filed by certain home buyers of Jaypee Infratech Limited, Hon'ble Supreme Court vide its various Orders gave directions to Jaiprakash Associates Limited to deposit a sum of Rs. 2000 Crores with the Court on 11th September 2017, which was modified vide its order(s) dated 22nd November 2017 and 21st March, 2018 to deposit **in instalment an amount of Rs. 750 Crores by 10th May 2018**. The Company has deposited Rs. 750 Crores (including Rs. 550 Crores till 31st March 2018) with the Hon'ble Supreme Court till date.*

In view of the ongoing IRP/ legal proceedings with Hon'ble National Company Law Tribunal (NCLT), Allahabad Bench and Hon'ble Supreme Court, the impact on the carrying value of the Investments in JIL amounting Rs. 849.26 Crores (84,70,00,000 Equity Shares of Rs. 10/- each excluding shares invoked by State Bank of India), Current Receivables amounting Rs. 341.75 Crores, Corporate Guarantee given to Lenders of JIL amounting Rs. 232.17 Crores and deposit of Rs. 550 Crores [till 31st March, 2018] with the Registrar, Supreme Court is currently unascertainable. Hence no provision is considered necessary in the Financial Statements for the year ended on 31st March 2018 by the Management."

The above note clearly shows that Original Order of Apex court has been modified for extension of time limit and converted in instalment. Audit firm nowhere stated that amount has been reduced to 550 crores. It is only an imagination of NFRA.

*Further if audit firm want to mislead the users of the financial statements he could not give the explanation that Apex court has directed the Company to deposit Rs. 2,000 crores with its Registry as this fact has been changed by the modified order of Apex court as per NFRA interpretation. However, ET has given full disclosure with drawing attention to note no 41 of the SFS **as such your charge that Audit firm has deliberately attempt to deceive and mislead the users of the financial statements is not correct.***

- 2.5** The Audit Firm's responses dated 14th June 2021, to the NFRA DAQRR observations, have been examined and NFRA's conclusions thereon are as follows:
- a. NFRA notes that the Audit Firm has failed to provide any WP references to support its submissions. Hence, these responses are without any basis and have to be considered only as an afterthought. Without prejudice to this, NFRA has perused the Audit Firm's response on its merit, if any.

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- b. The submissions made by the Audit Firm in [Para 1.4\(a\) above](#) are the very same contentions made by them in their response to PFC and these have been examined in great detail by NFRA while framing its DAQRR observations in [Para 1.3\(a\)](#) and [1.3\(b\)](#). For the sake of brevity, NFRA has not reproduced its response and has only provided reference to specific part of [Para 1.3\(a\)](#) and [1.3\(b\)](#):
- i) The Audit Firm assertion that “*Investment in subsidiary (JIL) having book value of Rs. 849.26 crore is not fully diluted as the same stands recoverable to the effect of market value of shares of JIL as on 31 March 2018.*” has been rebutted in detail in [Para 1.3\(a\)](#) and [Para 1.3 \(b\)](#). It was clearly noted by NFRA that the JIL Balance sheet was not healthy because JIL having incurred a loss of Rs. 1,818.37 crores whereas the market capitalization of the company was Rs. 1,166.68 cr as on 31.03.2018 which further declined to Rs. 830.56 cr as on the signing off of the Audit Firm. It is also to be noted that JIL was facing serious legal challenges in various forums of the country’s judiciary. Further, there is no documentation whatsoever available to support the statements of the Audit Firm that have been quoted in the [Para 1.4\(a\)](#) and hence all those statements shall be treated as devoid of any evidentiary value and as mere afterthoughts.
- c. The response provided by the Audit Firm in [Para 1.4\(b\) above](#) is completely baseless and without the support of any evidentiary value from the Audit File. Vide [Para 1.1\(b\)](#) and [1.1\(c\)](#) of its PFC, NFRA has clearly highlighted serious deficiencies in the work done by the Audit Firm. For the sake of brevity, NFRA has not reproduced its response and has only provided reference to specific part of [Para 1.1\(b\)](#) and [1.1\(c\)](#) of its PFC:
- i) Based on the examination of the Audit File, it is concluded that there was no documentation of what observations were made by the Audit Firm from the referred WPs, except inquiring from the management as to why the investments in JIL should not be impaired and documenting that based on the management reply that a qualified opinion has to be issued as the amount involved is material. The bases for their conclusions were also not forming part of the WPs.
 - ii) NFRA has carefully examined the Audit File vis-à-vis the Independent Auditor’s Opinion and observed that there were sufficient evidentiary circumstances to conclude that the parent company (JAL) net worth had substantially eroded because of its exposure in JIL, which was both material and pervasive(the word ‘pervasive’ is defined in [Para 2.3 e\)](#) above) to the Company’s financial statements. This should have resulted in an adverse

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opinion of the auditor instead of a qualified opinion in terms of Para 8 of SA 705. By failing to do so, the Audit Firm has failed to discharge its professional duties in alerting the Company's governance, statutory authorities, regulators, and users at large of the Company's precarious financial status in meeting its financial liabilities towards lenders and home buyers in totality. The detailed reasoning for the same are provided in [Para 1.1\(c\)](#).

- d. The Audit Firm's assertion in [Para 1.4\(c\)](#) that "***NFRA interpreted this qualification in a wrong manner as stating that Auditor stated that Order of 2000 crores deposit has been converted in to 550 crores***" is completely baseless and false. This is due to the detailed reasons stated in [Para 1.3\(c\)](#). Further, the reporting in the Independent Auditor's Report gives the impression that the initial order of Supreme Court to deposit Rs. 2,000 crores was modified to restrict the deposit to only Rs. 550 crores. NFRA has perused the order of the Supreme Court in the relevant case '*Writ Petition (Civil) No 744 of 2017*'. In various orders of the Supreme Court, the Supreme Court has not reduced the amount of deposit from the original Rs. 2,000 crores to a lower amount of Rs. 550 crores but had only extended the time to comply with the said orders. Hence, the reporting done by the Audit Firm in the Independent Auditor's Report is totally misleading and can only be described as a deliberate attempt to mislead the readers of the Auditor's report by completely distorting and misrepresenting the Supreme Court orders.
- e. The Audit Firm has not provided any response to the observations made by NFRA in [Para 1.3\(e\)](#) above. Hence NFRA observations made in [Para 1.3\(e\)](#) stands proved.

2.6 Therefore, NFRA concludes that the Audit Firm has:

- a. Failed to obtain sufficient information which is necessary for expression of an opinion, or its exceptions are sufficiently material to negate the expression of an opinion.
- b. Not exercised due diligence and has been grossly negligent in the conduct of their professional duties.
- c. Not carried out the audit according to the Standards on Auditing.
- d. Not disclosed complete information to users of Financial Statements as required under the relevant Financial Reporting Framework.
- e. Not maintained professional skepticism, professional competence and due care and other ethical requirements during the audit.
- f. Not provided an Adverse Opinion on the financial statements when the Standards of Auditing required it to do so.

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- g. Deliberately misrepresented the orders of the Supreme Court in a manner that can be interpreted only as having been done with an intent to deceive the users of the financial statements.
- h. Not ensured compliance with the provisions of the Companies Act, 2013.

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3. EOM ON LITIGATIONS PERTAINING TO CCI MATTER

3.1 Based on response of the Audit Firm, to the NFRA's questionnaire dated 30th September 2019, NFRA had conveyed the following prima facie conclusions on 30th September 2020.

a) In the Independent Auditor's Report on the Standalone Financial Statements of Jaiprakash Associates Limited the Audit Firm has stated as follows in Para 1 of Emphasis of Matter Paragraph:

"As stated in Note No. 32[d] of the standalone financial statements:

- i) *The Competition Commission of India vide its Order dated 31st August, 2016 held various cement manufacturers liable for alleged contravention of certain provisions of Competition Act, 2002 during F.Y. 2009-10 & 2010-11 and imposed a penalty of Rs. 1,323.60 crores on the company. The company has filed an appeal against the said Order before the Competition Appellate Tribunal wherein the Tribunal vide its order dated 15th November, 2016 read with order dated 7th December, 2016 granted stay in depositing the penalty imposed subject to the condition that the company shall deposit 10% of the penalty calculated on the profit earned by the cement business i.e. Rs. 23.77 crores, which was duly deposited. Thereafter, the matter was heard on various dates by Hon'ble National Company Law Tribunal (to whom the power in such matters has been transferred) and the Order has been reserved.*
- ii) *The competition commission of India vide its other order dated 19th January, 2017 held various cement manufacturers liable for alleged contravention of certain provisions of Competition Act, 2002 in the state of Haryana during the F.Y. 2012-13 to F.Y. 2014-15 and imposed a penalty of Rs. 38.02 crores on the company. The company had filed appeal against the Order. The Competition Appellate Tribunal stayed the operation of impugned order and further proceedings will commence after the Order in the matter referred in SL. No, i above, is passed."*

- b) On a plain reading of Para 6 of SA 706, it is clearly evident that for matters on which EOM has to be given, the Audit Firm should have obtained sufficient appropriate audit evidence that the matter is not materially misstated and also the fact that the matter should have been appropriately presented and disclosed in the financial statements.
- c) The company has disclosed the matters stated in Para 1 of EOM under the note pertaining to 'Contingent Liabilities' of the standalone financial statements. WP 'Folder A1 Pg. No. 96 – 108' contains the Management Representation letter which simply reiterates the matter presented in Note No. 32[d] to the standalone financial

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statements, without providing the details of the current status of the case and the probability of winning the case. Further, there are no records of verification of the legal opinion, in order to cross verify the management's contentions with respect to this matter. In the absence of any legal opinion in such a crucial matter, ET has merely relied upon the management's representation and has gone ahead with issuing an EOM in this matter. Providing an EOM on this matter is not in accordance with the requirements of Para 6 of SA 706, as sufficient appropriate audit evidence is not obtained.

- 3.2** The Audit Firm in its reply to NFRA's prima-facie comments dated 28th Nov 2020, has quoted Para A22 and A25 of SA 500, Para 4 and 6 of SA 706 and has stated that *"ET studied the order of Competition Commission of India and the appeal filed against the said order before the Competition Appellate Tribunal. ET also reviewed the stay order of the Tribunal dated 15th November, 2016 read and order dated 7th December, 2016 for depositing the penalty imposed subject to the condition that the company shall deposit 10% of the penalty calculated on the profit earned by the cement business i.e., Rs. 23.77 crores, which was duly deposited. ET also verified the amount deposited and reviewed accounting treatment of this deposit in the books of accounts. ET also reviewed various submissions made by the company before the Competition Appellate Tribunal and thereafter, National Company Law Tribunal. ET held meetings with the Company's legal department and also inquired regarding the current status of the cases. This matter was also existent in the previous Audit period and was also reported by the previous auditor in their Audit. ET went through the financial statements of other companies dealing with similar matter for this case as this case was nationwide filed in case of cement industry and review the disclosures made by industries and by their auditors. ET also held the meeting with the CFO of the Company for the current status of the cases and also documented the same in its Memorandum of observation as per point No 4 (Refer File A3.1 pg 1). ET also obtained the Management Representation Letter for this matter (refer File A1 Pg 104 point no. 15.05 and 15.06). Thereafter ET formed opinion in line with SA 706 since there is an uncertainty relating to the future outcome of this litigation, and the matter was of such importance that it is necessary/ fundamental to users understanding of the financial statements. This matter was appropriately presented and disclosed in the financial statements."*
- 3.3** NFRA had examined the above contentions of the Audit Firm, received in response to above noted NFRA's PFC, and had concluded as follows in its DAQRR dated 30th March 2021:
- a. NFRA has noted that there were no WP references made by the Audit Firm to support their submissions made and hence, these responses were without any basis and are not

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acceptable. These will be considered as an afterthought due to absence of any audit evidence to support the assertions made.

- b. NFRA has noted that the Audit Firm has referred to WPs *File A3.1 pg 1* and *File A1 Pg 104 point no. 15.05 and 15.06* to support its submissions made. These were exactly the same as referred by NFRA while giving its detailed PFC. There were no other WPs referred by the Audit Firm in support of their submissions made in response to PFC. Nevertheless, NFRA has referred to the WPs and has noted as follows i.e, in the WP '*File A3.1 pg 1*', titled "*Action taken Report on Reply to Memorandum observation for discussion with Management*" the Audit Firm has posed a question to JAL Management asking them to explain the current status of the case and also to explain why the provision of penalty should not be made in the books of accounts. To this question the Management had replied "*Same status as earlier. Management is confident that it is a strong case to win and we will succeed in the case. Further we will disclose the matter in the financial statements.*" The ET in 'Auditor's comments to be included in Audit Report' column of the WP has noted "*Ok, but the matter to be Reported in Emphasis of Matter Para as the amount involved is material.*"
- c. Having noted the amount involved as material, the Audit Firm should have been more skeptical in the conduct of their duties. However, apart from the notings made in WP *File no. A3.1 pg 2*, there are no records of the following traceable in the Audit File to cross verify the management contentions with respect to CCI matters as claimed to have been done by the Audit Firm in their response: verification of the order of CCI and the appeal filed against the said order before Competition Appellate Tribunal;
- (i) Verification of stay order of Competition Appellate Tribunal;
 - (ii) Verification of submissions made by the company before CAT and NCLT;
 - (iii) Minutes of meetings with company's internal legal department;
 - (iv) Verification of amount deposited and the accounting treatment followed by the company;
 - (v) Financial Statements of other companies dealing with similar matter to review the disclosures made by those companies and auditors, as claimed to have verified by the Audit Firm;
 - (vi) Legal opinions, to cross verify the management's contentions with respect to this matter.

In the absence of any of the above documents in the Audit File, ET has failed to obtain sufficient appropriate audit evidence and hence providing EOM Para on such an important financial statement item is not in accordance with Para 6 of SA 706.

- d. Therefore, NFRA concludes that the Audit Firm has:

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- i) Not exercised due diligence, and has been grossly negligent in the conduct of their professional duties;
- ii) Not carried out the audit according to Standards on Auditing;
- iii) Not maintained professional skepticism, professional competence and due care and other ethical requirements during the audit and
- iv) Not ensured compliance with the provisions of the Companies Act, 2013.

3.4 In communication dated 14th June 2021 the Audit Firm has submitted its response to the DAQRR dt. 30th March 2021 issued by NFRA, as follows:

“ET followed the audit procedures as stated in the reply to NFRA’s prima-facie comments dated 28th Nov 2020. ET had not documented the followings as mentioned by NFRA;

- *Verification of stay order of Competition Appellate Tribunal;*
- *Verification of submissions made by the company before CAT and NCLT;*
- *Minutes of meetings with company’s internal legal department;*
- *Financial Statements of other companies dealing with similar matter to review the disclosures made by those companies and auditors, as claimed to have verified by the Audit Firm;*

However, ET documented verification of amount deposited and review of accounting treatment of deposit in the Books of Accounts in the form of Trial Balances, Grouping of Balance Sheet etc.

However, ET raised observation on this matter, and it is itself the evidence that ET had examined the records of the company and had knowledge on the subject matter. ET had documented observation at final stage when he discussed the matter with CFO to finalize the audit report. However, the matter was already discussed with concerned staff and concerned officers of the company time to time. Further ET had also got Management Representation letter on this matter.

There may be some lapses on the ET part regarding documentation as mentioned by NFRA however, ET had verified the company’s documents and then reached on the conclusion to give the EOM on this important matter.”

3.5 The Audit Firm’s responses dated 14th June 2021, to the NFRA DAQRR observations, have been examined and NFRA’s observations thereon are as follows:

- a. The submissions made by the Audit Firm in [Para 3.4 above](#) are the very same contentions made by them in their response to PFC and these have been examined in great detail by NFRA while framing its DAQRR observations in [Para 3.3](#). For the sake of brevity, NFRA has not reproduced its response and has only provided reference to specific part of [Para 3.3](#).
- b. NFRA has noted that the list of documents, which were claimed to have been verified by the ET in [Para 3.3 c\) above](#), were not forming part of the Audit File. ET has merely relied upon the Management Representation Letter which was reiterating the same facts as reproduced in Note No. 32[d] of the Standalone Financial Statements, for providing

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EOM Para. Hence, ET has failed to obtain Sufficient Appropriate Audit Evidence, as required by Para 6 of SA 706. Further, providing EOM Para on such an important financial statement item without obtaining Sufficient Appropriate Audit Evidence is not in accordance with SA 706.

3.6 Therefore, NFRA concludes that the Audit Firm has:

- a. Not exercised due diligence, and has been grossly negligent in the conduct of its professional duties;
- b. Not carried out the audit according to the applicable Standards on Auditing;
- c. Not maintained professional skepticism, professional competence, due care and other ethical requirements during the audit and
- d. Not ensured compliance with the provisions of the Companies Act, 2013.

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4. EOM ON INVOCATION OF PLEDGE OF EQUITY SHARES OF JIL HELD BY JAL

4.1 Based on response of the Audit Firm, to the NFRA's questionnaire dated 30th September 2019, NFRA had conveyed the following prima facie conclusions on 30th September 2020:

- a) In the Independent Auditor's Report on the Standalone Financial Statements of Jaiprakash Associates Limited the Audit Firm has stated as follows in Para 2 of Emphasis of Matter Paragraph:

"As stated in Note No. 38 of the standalone financial statements, State Bank of India has invoked the pledge of 10,00,00,000 Equity Shares of Jaypee Infratech Limited (JIL) held by the company and had sold 3,18,96,744 Equity Shares in the open market during the quarter ended March 31, 2018. The impact of the above said sale of shares has been taken in the standalone Financial Statements. Balance shares aggregating to 6,81,03,256 are held with trusteeship as at 31.03.2018. Pending disposal of balance shares by the Lender, the balance shares continue to be shown as part of Current Investments at cost."

- b) On a plain reading of Para 6 of SA 706, it is clearly evident that for matters on which EOM has to be given, the Audit Firm should have obtained sufficient appropriate audit evidence that the matter is not materially misstated and also the fact that the matter should have been appropriately presented and disclosed in the financial statements.
- c) The Audit Firm in their response to NFRA Query 2.1 has stated that, *"ET has verified the investments from D-MAT statement, investment register maintained by the company and investment schedules in Balance sheets of subsidiaries & associates companies however the shares which were invoked were verified from the investment register of the company."*
- d) WP 'D 8.01 (b) File No. Pg. No. 388-395' contains Statement of Holdings of Jaiprakash Associates Limited from NSDL as on 02-APR-2018. The statement merely contains the number of shares pledged and the number of shares on which JAL is the beneficiary for several of its subsidiaries. There is no documentation of balance confirmation, if any, regarding the pledged shares from SBI. Further, there is no documentation of ET's verification of the amount of borrowings or loans made from SBI against the pledged shares of JIL and the ETs verification of the treatment of interest on such borrowings made by the company. As per Note 1 to the standalone financial statements, the shares held by the company in its subsidiaries were accounted for at cost. WP does not provide any evidence as to what audit procedures were performed by the ET to ensure that investments are appropriately accounted and disclosed in the financial statements and the observations and conclusions reached by the ET. As explained in the investments

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section of our PFC, the company (JAL) does not have any ownership rights on the pledged shares of JIL, as the bank has exercised its right of invocation due to non-payments of the debts by the company. However, the company continued to account these shares as its investments in the standalone financial statements. The contention made by the Audit Firm that they have verified the investment register and the investment schedules maintained by the company is completely without any basis and not supported by the Audit File and hence, this shall be construed as absence of sufficient appropriate audit evidence for which providing EOM Para in the Independent Auditors Report is not in accordance with Para 6 of SA 706, as the matter on which the EOM is issued is not free from material misstatement and it is not appropriately presented and disclosed in the financial statements.

- 4.2** The Audit Firm in its reply to NFRA's prima-facie comments dated 28th Nov 2020, stated that *"ET has reviewed the invocation letter of SBI Trusteeship for 10,00,00,000 equity share of JIL. ET also reviewed the contract notes of sale of shares received by the company on sale of 3,18,96,744 equity shares by SBI Trusteeship from January 2018 to March 2018. ET also recomputed the profit on sale of these shares which were accounted for in the books of accounts in the financial year 2017-18. ET also discussed the matter with the CFO of the Company about the balance share i.e. 6,81,03,256 which were also invoked but not sold till 31.03.2018 by the SBI Trusteeship as per point no. 5 of Memorandum of observation (refer 'File no. 3.1A p 1'). ET prepared a detailed chart regarding investment verification as 'File no. 8.01 (b) page no. 353 to 358'. ET could not receive any balance confirmation from SBI Trusteeship regarding these shares which were invoked by SBI Trusteeship. SBI couldn't give any confirmation as invoked shares were transferred in the name of SBI Trusteeship as per RBI Circular, but ET assessed the matter in light of RBI circular along with IND AS 1. As per IND AS 1, accounting should be done on the basis of substance not on the basis of Form. In the present case, ultimate beneficial owner is JAL since proceeds of sale of these share shall be adjusted from the value of loan as share were pledged as security against the specific loan. Nature of security is something given for protection against potential loss for the lender. In such an event, the security becomes the property of the lender to compensate for the unreturned borrowed money. Further As per General terms of the Loan agreement, a security given for loan shall be adjusted against the borrowing for which it was given and any excess amount received from the realization of sales proceed from the security shall be refunded back to the borrower and if any shortfall shall be asked from the borrower for payment the same. The same procedure has been followed in case of 3,18,96,744 Equity Shares of JP Infratech Ltd (JIL) which were disposed off in the open market. However, the balance 6,81,03,256 shares of JIL invoked by SBI were*

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pending for disposal as of 31 March 2018 and hence the adjustment of these shares was not done in the financial statements for the year ended 31 March 2018. These shares were shown as part of Current Investments since these shares were not sold by SBI. Further, there is an uncertainty about the recoverable value of these shares and hence an emphasis of matter has been included in the auditor's report for the year ended 31st March 2018. If loan repayment of the borrower has been done with lesser disposal of security then lender should have to refund balance security to the borrower as done in the case of 1,20,00,000 Equity Shares of JIL invoked by IndusInd Bank were transferred back to the company as stated in the note no 38 (ii) of the financial statements for the year ended 31 March 2018. ET also verified the related loan for which these shares were pledged. ET scrutinized the loan ledger and interest working and observed that Company was continuously showing this loan as outstanding and also providing interest on this related loan. As on date of signing of audit report, there was a lot of uncertainty around the recoverable amount on the sale of these invoked shares. In the absence of settlement order from the bank, the shares and loan balances were not adjusted by the company in its financial statements. However, since the matter was significant, ET reached on conclusion to give an emphasis of matter on the same to make the users of financial statements aware on the status of the pledged shares i.e. to highlight this matter to the users of the financial statements.”

4.3 NFRA had examined the above contentions of the Audit Firm, received in response to the above noted NFRA's PFC, and had concluded as follows in its DAQRR dated 30th March 2021:

- a. NFRA notes that the Audit Firm has referred to WPs *File A3.1 pg 1* and *File A1 Pg 104 point no. 15.05 and 15.06* to support its submissions made. These are exactly the same as referred by NFRA while giving its detailed prima facie conclusions. There are no other WPs referred by the Audit Firm in support of their submissions made in response to PFC. Nevertheless, NFRA has referred to the WPs and notes as follows i.e., in the WP '*D 8.01 (b) File No. Pg. No. 353 to 358*' the ET has documented the statement of investments in equity shares – quoted and 4 screenshots of security wise archives (equities) from NSE India website. Apart from documenting these, there are no workings, or the audit procedures applied by the ET and the conclusions reached by them traceable in the Audit File. NFRA's observations made in the PFC i.e., "*there is no documentation of balance confirmation, if any, regarding the pledged shares from SBI*" is completely accepted by the Audit Firm and it is substantiated by the Audit Firm's own submissions, "*ET could not receive any balance confirmation from SBI Trusteeship regarding these shares which were invoked by SBI Trusteeship.*" Apart from the above noting, there are no records of the following traceable in the Audit File as claimed to have been done by the Audit Firm in their response:

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- 1) Review of invocation letter of SBI Trusteeship for 10,00,00,000 equity shares of JIL;
- 2) Review of contract notes of sale of shares received by the company on sale of 3,18,96,744 equity shares by SBI Trusteeship from January 2018 to March 2018 and
- 3) ET's recomputation of profit on sale of shares which were accounted in the Books of Accounts in FY 2017-18.

Further, the Audit Firm has not objected to NFRA's PFC that the company should not have accounted for these investments at cost as the company does not have any ownership rights on the pledged shares of JIL in terms of Para 2.3.1.14(ix) of Master circular – Loans and Advances – Statutory and other restrictions, issued by RBI dated July 1, 2015 which states that in case of default by borrower and the bank exercising the option of invocation of pledge, the shares get transferred in the bank's name immediately. The WPs referred to do not provide any evidence as to what audit procedures were performed by the ET to ensure that investments are appropriately accounted and disclosed in the financial statements and the observations and conclusions reached by the ET. The company by continuing to account for the shares of JIL at cost, has overstated its investments, as it does not have any ownership rights on the pledged shares of JIL in terms of Master Circular – Loans and Advances – Statutory and other restrictions, issued by RBI dated July 1, 2015. This represents a material misstatement in the Financial Statements of JIL which the Audit Firm has failed to identify and bring the same to the notice of Management and TCWG for timely corrections. Further there is no documentation of ET's verification of the quantum of borrowings or loans made from SBI against the pledged shares of JIL and the ETs verification of the treatment of interest on such borrowings made by the company. In WP '*File no. A3.1 p 1*' titled as 'Action taken report to Memorandum observations for discussion with Management', the Audit Firm has posed a query to the Management "*during the verification of investments it is found that SBI has invoked the pledge of 10 crore Equity Shares of JIL and up till 31.03.2018, SBI had sold 3.19 crore Equity Shares in the open market and the impact of the same has been taken in the books of accounts. However, no adjustment has been made in the value of balance shares as the market value of the same was lower than the value as on 31.03.2018.*" To this query Management had responded as, "*Book value of these shares is more than the amount invested in the shares of JIL as such there is no impairment in the value of these shares.... However, we have disclosed the same as part of current investments at cost*

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and also we will give a note in the Financial Statements on this matter.” To this response of the Management the ET in the ‘Remarks’ column has noted, “Ok, but the matter to be reported in Emphasis of Matter Para as the amount involved is material.” Having noted the amount involved as material, the Audit Firm should have been more skeptical in the conduct of their duties. However, apart from this discussion with Management, there is nothing in the WP which explains that the Audit Firm has obtained sufficient appropriate audit evidence to satisfy itself that the Matter qualifies to be reported under EOM.

- b. NFRA has examined the response of the audit firm and notes that even though the audit firm has provided lengthy explanation on the subject, it failed to provide any audit evidence (WP) documenting the assumptions made, procedures performed, conclusions drawn on the subject matter. The contention of the audit firm that since part of the pledge revoked shares are not yet sold by the bank, they are held in the books of the entity as current investments is not acceptable as the pledge has been invoked by the bank making the bank the owner of these shares. Till the bank transfers the excess shares or value back to the company, the company is not the legal owner of these shares or value. Again, the audit firm’s contention that ET verified the related loan for which these shares were pledged, ET scrutinized the loan ledger and interest working etc is not supported by any audit evidence. Hence, these responses are without any basis and is considered as an afterthought. On plain reading of Para 6 of SA 706, it is clearly evident that for matters on which EOM has to be given, the Audit Firm should have obtained sufficient appropriate audit evidence that the matter is not materially misstated and also the fact that the matter should have been appropriately presented and disclosed in the financial statements. In the instant case as explained in Para 3.3 a) above, the Audit Firm has failed to obtain the sufficient appropriate audit evidence and it has also failed to ensure that the matter on which EOM is issued is free from material misstatement. Hence issuing an EOM on such a crucial matter is not in accordance with the requirements of Para 6 of SA 706.
- c. Therefore, NFRA concludes that the Audit Firm has:
- i) Not exercised due diligence, and has been grossly negligent in the conduct of their professional duties;
 - ii) Not carried out the audit according to Standards on Auditing;
 - iii) Not maintained professional skepticism, professional competence and due care and other ethical requirements during the audit and
 - iv) Not ensured compliance with the provisions of the Companies Act, 2013.

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- v) Not identified the material misstatements existing in the Financial Statements and brought it to the notice of Management and TCWG for timely corrections and failed to report on the same.

4.4 In communication dated 14th June 2021 the Audit Firm has submitted its response to the DAQRR dt. 30th March 2021 issued by NFRA, as follows:

“ET followed the audit procedures as stated in the reply to NFRA’s prima-facie comments dated 28th Nov 2020. ET had not documented regarding the followings as pointed out by NFRA;

- *Review of invocation letter of SBI Trusteeship for 10,00,00,000 equity shares of JIL;*
- *Review of contract notes of sale of shares received by the company on sale of 3,18,96,744 equity shares by SBI Trusteeship from January 2018 to March 2018 and*
- *ET’s re-computation of profit on sale of shares which were accounted in the Books of Accounts in FY 2017-18.*

However, ET raised observation on this matter, and it is itself evidence that ET had examined the records of the company and had knowledge on the subject matter. ET has reviewed the invocation letter and also done vouching and verification for checking the profit on sales of shares. ET had documented observation at final stage when he discussed the matter with CFO to finalize the audit report. However, the matter was already discussed with concerned staff and concerned officers of the company time to time. Further ET had also got Management Representation letter on this matter.

ET could not receive any balance confirmation from SBI Trusteeship regarding these shares which were invoked by SBI Trusteeship. SBI couldn’t give any confirmation as invoked shares were transferred in the name of SBI Trusteeship as per RBI Circular, but ET assessed the matter in light of RBI circular along with IND AS 1. As per IND AS 1, accounting should be done on the basis of substance not on the basis of Form. In the present case, ultimate beneficial owner is JAL since proceeds of sale of these shares shall be adjusted from the value of loan as share were pledged as security against the specific loan. Nature of security is something given for protection against potential loss for the lender which can be done by the borrower in case of default in his payments. In such an event, the security becomes the property of the lender to compensate for the unreturned borrowed money.

Further As per General terms of the Loan agreement, a security given for loan shall be adjusted against the borrowing for which it was given and any excess amount received from the realization of sales proceed from the security shall be refunded back to the borrower and if any shortfall shall be asked from the borrower for payment the same. The same procedure has been followed in case of 3,18,96,744 Equity Shares of JP Infratech Ltd (JIL) which were disposed off in the open market. However, the balance 6,81,03,256 shares of JIL invoked by SBI

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were pending for disposal as of 31 March 2018 and hence the adjustment of these shares was not done in the financial statements for the year ended 31 March 2018. These shares were shown as part of Current Investments since these shares were not sold by SBI.

Further, there is an uncertainty about the recoverable value of these shares and hence an emphasis of matter has been included in the auditor's report for the year ended 31st March 2018. If loan repayment of the borrower has been done with lesser disposal of security then lender should have to refund balance security to the borrower as done in the case of 1,20,00,000 Equity Shares of JIL invoked by Indusind Bank were transferred back to the company as stated in the note no 38 (ii) of the financial statements for the year ended 31 March 2018.

ET also verified the related loan for which these shares were pledged. ET scrutinized the loan ledger and interest working and observed that Company was continuously showing this loan as outstanding and also providing interest on this related loan. Company has defaulted in repayment of interest as Loan repayment is not due as per MRA.

As on date of signing of audit report, there was a lot of uncertainty around the recoverable amount on the sales of these invoked shares. In the absence of settlement order from the bank, the shares and loan balances were not adjusted by the company in its financial statements.

There may be some lapses on the ET part regarding documentation as observed by NFRA however, ET had verified the company's documents and then reached on the conclusion to give the EOM on this important matter and in light of Ind AS 1 it can be stated as that there is no material misstatements exists in the Financial Statements."

4.5 The Audit Firm's responses dated 14th June 2021, to the NFRA DAQRR observations, have been examined and NFRA's observations thereon are as follows:

- a. NFRA notes that the Audit Firm has failed to provide any WP references or any other audit evidence from the audit file to support its submissions. Hence, these responses are without any basis and are an afterthought only. Without prejudice to this, NFRA has perused the Audit Firm's response on its merit, if any.
- b. The submissions made by the Audit Firm in [Para 4.4 above](#) are the very same contentions made by them in their response to PFC and these have been examined in great detail by NFRA while framing its DAQRR observations in [Para 4.3](#). For the sake of brevity, NFRA has not reproduced its response and has only provided reference to specific part of [Para 4.3](#).

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- c. The Audit Firm's response in [Para 4.3 above](#) that *"ET had not documented regarding the followings as pointed out by NFRA ET could not receive any balance confirmation from SBI Trusteeship regarding these shares which were invoked by SBI Trusteeship"* clearly proves NFRA's observations made in [Para 4.3 a\) above](#).
- d. The Audit Firm's contentions *"As per IND AS 1, accounting should be done on the basis of substance not on the basis of Form. In the present case, ultimate beneficial owner is JAL since proceeds of sale of these shares shall be adjusted from the value of loan as share were pledged as security against the specific loan"* are completely baseless and not acceptable because of the reasons stated in [Para 4.3 a\) above](#).
- e. Further, the Audit Firm's contentions *"As per General terms of the Loan agreement, a security given for loan shall be adjusted against the borrowing for which it was given and any excess amount received from the realization of sales proceed from the security shall be refunded back to the borrower and if any shortfall shall be asked from the borrower for payment the same..... ET also verified the related loan for which these shares were pledged. ET scrutinized the loan ledger and interest working and observed that Company was continuously showing this loan as outstanding and also providing interest on this related loan"* are completely baseless and not acceptable because of the reasons stated in [Para 4.3 b\) above](#).

4.6 Therefore, NFRA concludes that the Audit Firm has:

- a. Not exercised due diligence, and has been grossly negligent in the conduct of its professional duties;
- b. Not carried out the audit according to the applicable Standards on Auditing;
- c. Not maintained professional skepticism, professional competence, due care and other ethical requirements during the audit, and
- d. Not ensured compliance with the provisions of the Companies Act, 2013.
- e. Not identified the material misstatements existing in the Financial Statements, failed to bring the same to the notice of Management and TCWG for timely corrections and failed to report on the same.

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5. EOM ON NON-CURRENT TRADE RECEIVABLES

5.1 Based on response of the Audit Firm, to the NFRA's questionnaire dated 30th September 2019, NFRA had conveyed the following prima facie conclusions on 30th September 2020:

a) The Audit Firm in Para 3 of EOM has stated as follows:

“As Stated in Note No. 39 of the standalone financial statement, Non-Current Trade receivables include Rs. 2645.45 Crore, outstanding as at 31 March 2018 (Rs. 2983.52 Crore, outstanding as at 31st March 2017) which represents various claims raised on the Clients based on the terms and conditions implicit in the Engineering & Construction Contracts in respect of closed/suspended/under construction projects. These claims are mainly in respect of cost over run arising due to suspension of works, client caused delays, changes in the scope of work, deviation in design and other factors for which company is at various stages of negotiation/ discussion with the clients or under Arbitration/ litigation. On the basis of the contractual tenability, progress of negotiations/ discussions/ arbitration/ litigations, the management considers these receivables are fully recoverable.”

b) The Audit Firm has in their response to NFRA query 2.6 and 2.7 stated that:

i) *“ET did an analysis of aged noncurrent trade receivables. ET also had observations in respect of those trade receivables which were discussed with the client. Ageing documents were attached in the individual site wise file.”*

ii) *“Contract revenue has been booked only when negotiations have been reached at an advanced stage and amount will be accepted by the customer can be measured reliably. Same has been shown as per Point no 7 of Memorandum Observation for discussion with Management where it is replied by management the award has been done in favour of the company. Further no such claim has been made during the financial year 2017-18.”*

c) On perusal of WP 'A3.1 Pg. No. 2 Point 7' (Action taken report to Memorandum Observations for discussion with Management), NFRA observes that ET had inquired from the management as to why provision for doubtful debts was not to be made for these non-current trade receivables aggregating Rs. 2,645.45 crores as these are outstanding for a long time. Management responded to this query by stating that, *“Company is at various stages of negotiation/ discussion with clients in the identified cases. Further in most of the cases companies has been awarded/ succeed under Arbitration/litigation. These claims are mainly in respect of increased cost of our company arising due to suspension of work; client caused delays, changes in the scope of work, deviation in design and other factors. Accordingly, we consider these*

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receivables are fully recoverable. However, we will give a suitable note in the financial statements.” To this explanation provided by the management, the Audit Firm has noted, “Ok, but the matter to be reported in Emphasis of Matter Para as the amount involved is material.” NFRA has also analyzed the other referred WPs, ‘H 8.48 Pg. No. 40, H 8.03 Pg. No 70, H 8.33 Pg. No. 40, H 8.45 Pg. No. 34, H 8.33 Pg. No. 40’.

- d) These WPs merely contain details of claims receivable in various locations like Baglihar, Kevadia, Teesta, Tehri, Omkareshwar, Lakhwar and Dulhasti. Trial balances of these locations are provided in the files along with the details of claims receivable by the company as provided by the management. There is no documentation of any verification of:
- i) Arbitration order or any Litigation orders so as to ensure that management contention is supported by other audit evidences.
 - ii) Present status of the claims and projects, Percentage of completion of those projects and legal opinions, if any.
- e) Para 3 of SA 580 clearly states that 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. Hence, in the absence of any arbitration orders/litigation orders in favour of JAL and legal opinions to support the management’s contention that these non-current trade receivables aggregating Rs. 2,645.45 crores are fully recoverable, ET has failed to obtain sufficient appropriate audit evidence and also to ensure that these non-current trade receivables are not materially misstated; hence providing EOM Para on such an important financial statement item is not in accordance with Para 6 of SA 706.

5.2 The Audit Firm in its reply to NFRA’s prima-facie comments dated 28th Nov 2020, has quoted Para A22 of SA 500 and Para 4 and 6 of SA 706 and has further stated that, “*ET held meetings with the Company’s claims department and also verified contracts with customers, claim documents filed, Arbitration award, Appeal filed and inquired to understand the current status of the case. ET also studied the financial statements of other companies for this case to obtain the industry experience about understating of treatment of claims receivable in these cases. These non-current trade receivables of Rs. 2,645.45 Cores as at March 31, 2018 are those receivables for which revenue were booked before the financial year 2017-18. These trade receivables are continuing from previous year. ET also held the meeting with CFO of the Company for the current status of the cases and also documented the same in their Memorandum of observation as per point No 7 (refer ‘File no. A3.1 pg 2’). ET also obtained the Management Representation Letter (refer ‘File A1 Pg 106 point no. 17.08’). In line with SA*

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706, since the matter involved uncertainty relating to the future outcome of these litigations, ET considered it appropriate to include this matter in the auditor's report."

5.3 NFRA had examined the above contentions of the Audit Firm, received in response to above noted NFRA's PFC, and had concluded as follows in its DAQRR dated 30th March 2021:

a. NFRA notes that the Audit Firm has referred to WPs '*File no. A3.1 pg 2*' and '*File A1 Pg 106 point no. 17.08*' to support its submissions made which is exactly the same as referred by NFRA while giving its detailed prima facie conclusions and there are no other WPs referred by the Audit Firm in support of its submissions made in their response to PFC. Nevertheless, NFRA has referred to the WPs and notes as follows i.e., in WP '*File no. A3.1 pg 2*' titled as '*Action taken report to Memorandum observations for discussion with Management*', the Audit Firm has posed a query to the Management asking them to explain why the provision for doubtful debts has not to be made in the books of accounts as these are outstanding for a long time. To this query Management had responded as, "*Company is at various stages of negotiation/ discussion with clients in the identified cases. Further in most of the cases companies has been awarded/ succeed under Arbitration/litigation. These claims are mainly in respect of increased cost of our company arising due to suspension of work; client caused delays, changes in the scope of work, deviation in design and other factors. Accordingly, we consider these receivables are fully recoverable. However, we will give a suitable note in the financial statements.*" To this response of the Management the ET in the '*Remarks*' column has noted, "*Ok, but the matter to be reported in Emphasis of Matter Para as the amount involved is material.*" Having noted the amount involved as material, the Audit Firm should have been more skeptical in the conduct of their duties. However, apart from the notings made in WP *File no. A3.1 pg 2*, there are no records of the following traceable in the Audit File as claimed to have been done by the Audit Firm in their response:

- 1) Contract notes with customers of the company;
- 2) Claim documents filed;
- 3) Arbitration award;
- 4) Appeals filed;
- 5) Financial Statements of other companies dealing with similar matter to obtain industry experience about understanding of treatment of claims receivable and
- 6) Minutes of meetings with company's claims department

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On a plain reading of Para 6 of SA 706, it is clearly evident that for matters on which EOM has to be given, the Audit Firm should have obtained sufficient appropriate audit evidence that the matter is not materially misstated and also the fact that the matter should have been appropriately presented and disclosed in the financial statements. In the instant case as explained above, the Audit Firm has failed to obtain the sufficient appropriate audit evidence and it has also failed to ensure that the matter on which EOM is issued is free from material misstatement. Hence issuing an EOM on such a crucial matter is not in accordance with the requirements of Para 6 of SA 706.

- b. Therefore, NFRA concludes that the Audit Firm has:
- i) Not exercised due diligence, and has been grossly negligent in the conduct of their professional duties;
 - ii) Not carried out the audit according to Standards on Auditing;
 - iii) Not maintained professional skepticism, professional competence and due care and other ethical requirements during the audit and
 - iv) Not ensured compliance with the provisions of the Companies Act, 2013.

5.4 In communication dated 14th June 2021 the Audit Firm has submitted its response to the DAQRR dt. 30th March 2021 issued by NFRA, as follows:

“ET followed the audit procedures as stated in the reply to NFRA’s prima-facie comments dated 28th Nov 2020. ET had not documented regarding the followings as Pointed out by NFRA;

- *Contract notes with customers of the company;*
- *Claim documents filed;*
- *Arbitration award;*
- *Appeals filed;*
- *Financial Statements of other companies dealing with similar matter to obtain industry experience about understanding of treatment of claims receivable and*
- *Minutes of meetings with company’s claims department*

However, ET raised observation on this matter first time and it is itself the full evidence that ET had examined the records of the company and had knowledge on the subject matter. ET had not collected above documents as these are voluminous in nature and relates from past year. ET had documented observation at final stage when he discussed the matter with CFO to finalize the audit report. However, the matter was already discussed with concerned staff and concerned officers of the company time to time. Further ET had also got Management Representation letter on this matter.

There may be some lapses on the ET part regarding documentation as observed by NFRA however, ET had verified the company’s documents and then reached on the conclusion to give the EOM on this important matter.”

5.5 The Audit Firm’s responses dated 14th June 2021, to the NFRA DAQRR observations, have been examined and NFRA’s observations thereon are as follows:

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- a. NFRA notes that the Audit Firm has failed to provide any WP references or any other audit evidence from the audit file to support its submissions. Hence, these responses are without any basis and are an afterthought only. Without prejudice to this, NFRA has perused the Audit Firm's response on its merit, if any.
- b. The submissions made by the Audit Firm in [Para 5.4 above](#) are the very same contentions made by them in their response to PFC and these have been examined in great detail by NFRA while framing its DAQRR observations in [Para 5.3](#). For the sake of brevity, NFRA has not reproduced its response and has only provided reference to specific part of [Para 5.3](#).
- c. The Audit Firm's response in Para 4.3 that "*ET had not documented regarding the followings as pointed out by NFRA*" clearly proves NFRA's observations made in [Para 5.3 a\) above](#).
- d. The Audit Firm's contentions "*ET raised observation on this matter first time and it is itself the full evidence that ET had examined the records of the company and had knowledge on the subject matter. ET had not collected above documents as these are voluminous in nature and relates from past year*" are completely baseless and not acceptable because of the reasons stated in [Para 5.3 a\) above](#).

5.6 Therefore, NFRA concludes that the Audit Firm has:

- a. Not exercised due diligence, and has been grossly negligent in the conduct of its professional duties;
- b. Not carried out the audit according to the applicable Standards on Auditing;
- c. Not maintained professional skepticism, professional competence, due care and other ethical requirements during the audit, and
- d. Not ensured compliance with the provisions of the Companies Act, 2013.

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6. EOM ON ACCOUNTING FOR INVESTMENTS MADE IN PPGCL

6.1 Based on response of the Audit Firm, to the NFRA's questionnaire dated 30th September 2019, NFRA had conveyed the following prima facie conclusions on 30th September 2020:

- a) In Independent Auditor's Report on the Standalone Financial Statements of Jaiprakash Associates Limited the Audit Firm has stated as follows in Para 4 of Emphasis of Matter Paragraph:

“As stated in Note No. 40 of the standalone financial statements, the company has made an investment of Rs. 340 crores (34 crore Equity Shares of Rs. 10/- each, fully paid up) in Prayagraj Power Generation Company Limited ('PPGCL'), an associate company. Lenders of PPGCL has invoked the entire pledged share of PPGCL held by Jaiprakash Power Ventures Limited ('JPVL') [Holding Company of PPGCL] on 18th December, 2017 due to default in payment of interest to Banks/Financial Institutions. Keeping in view of the above facts, the impact on carrying amount of Equity Shares of PPGCL held by the company is currently unascertainable and considered at Book Value.”

- b) The company (JAL) holds 11.49% voting power of PPGCL and has accounted for its investments made in PPGCL as an associate company. The accounting treatment followed by the company (JAL) is in violation of Para 5 of Ind AS 28, as the entity (JAL) holds less than 20% of the voting powers of PPGCL. The company (JAL) should have rather accounted for its investments made in PPGCL at fair value in accordance with Ind AS 109.
- c) ET has noted in WP A 3.4(a&b) Pg. No. 49, *“Consequent to invocation of pledged shares, PPGCL ceased to be subsidiary of JPVL w.e.f 18th December, 2017. Lenders have since commenced the process for sale of shares/change on management of PPGCL by inviting expression of interest/definitive bids from prospective bidders.”* It is clearly evident that JAL is not holding any significant influence over PPGCL and also the fact that the company is unable to service its interest obligations to the lenders from February 2017 onwards, JAL should have clearly written down the value of investments to NIL as the fair value of such investments would have drastically reduced.
- d) Further as per Para 6 of SA 706, EOM can only be issued if the Audit Firm has obtained sufficient appropriate audit evidence that the matter is not materially misstated and also the fact that the matter should have been appropriately presented and disclosed in the financial statements. In the present case, since accounting treatment followed and

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presentation and disclosure made by the company is not in accordance with the requirements of Ind AS 28, issuing EOM is not justified.

6.2 The Audit Firm in its reply to NFRA's prima-facie comments dated 28th Nov 2020, has quoted Para A22 of SA 500 and Para 4 and 6 of SA 706 and has further stated that, "*JPVL is an associate of JAL with 29.74% stake. JAL along with its associate, JPVL, held its stake in PPGCL. In Dec 2017, lenders of PPGCL invoked the pledged shares of PPGCL held by JPVL hence PPGCL ceased to be a subsidiary of JPVL as on this event. The significant influence is derived from having one Managing director for both the companies. Managing director of JAL, Mr. Manoj Gaur, was also a Director of PPGCL, and having an important role in decision making of both the companies. Out of 12 directors on the board of PPGCL, there are three below mentioned common directors on the board of PPGCL and JAL, both as at 31 March 2018 which evidences the representation on the board of directors per above stated guidance.*

- *Sunil Kumar Sharma (DIN no. 00008125)*
- *Sunny Gaur (DIN no. 00008293)*
- *Manoj Gaur (DIN no. 00008480)*

In light of the above facts, PPGCL was continued to be shown as investment in associate company of JAL as at 31 March 2018. As per Ind AS 109, company has exercised an option to keep the investment in associate at cost.

ET has performed impairment testing of its investment in PPGCL per Ind AS 36, Impairment of assets. Refer 'File A3.4 (b) pg 49 to 50' in audit files submitted. As stated in PPGCL Impairment testing document, the Company is having long term PPA for sales of Electricity and Debt restructuring proposal has already been submitted with the lenders. On the basis of discussion with the Management ET understood that debt restructuring in PPGCL will have positive effect. ET also reviewed the Audit report and financial statements of PPGCL. As per Note no. 32 of financial statements of PPGCL, first unit was commissioned in February 2016, second unit in September 2016 and third unit in May 2017. During these years plants was not operated at optimum level due to shortage of working capital. Company had PPA upto 90% of Power generated and also had FSA for meeting 90% coal (main raw material) requirement. Initially, the Company incurred losses in its early period of commencement of operations, on the basis of discussion with the management ET understood that, there will not be losses in the future years. Further ET discussed this matter with CFO of JAL and also documented the same in their Memorandum of observation as per point No 6 (refer 'File no. A3.1 pg 2'). ET also obtained the Management Representation Letter (refer 'File A1 Pg 100 point no. 9.07').

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ET considered this matter as significant and found it appropriate to highlight this matter to the users of the financial statement by including an Emphasis of matter in audit report.”

6.3 NFRA had examined the above contentions of the Audit Firm, received in response to the above noted NFRA’s PFC, and had concluded as follows in its DAQRR dated 30th March 2021:

- a. NFRA notes that there are no WP references made by the Audit Firm wherein the examination done by the audit team on how having 3 directors of JAL out of 12 directors in PPGCL is going to have significant influence in order to consider it as an associate company is documented. Hence, these responses are without any basis and are considered as an afterthought.
- b. NFRA notes that the Audit Firm has referred to WPs ‘*File A3.4(b) pg 49 to 50, File no. A 3.1 Pg 2 and File A1 Pg 100 point no. 9.07*’ to support its submissions made. These are exactly the same as referred by NFRA while giving its detailed prima facie conclusions. There are no other WPs referred by the Audit Firm in support of their submissions made in response to PFC. Nevertheless, NFRA has referred to the WPs and notes as follows i.e., in WP ‘*File no. A3.1 pg 2*’ titled as ‘Action taken report to Memorandum observations for discussion with Management’, the Audit Firm has posed a query to the Management asking them to explain why the provision for diminution in the investments made by the company in PPGCL is not considered in the books of accounts. To this query Management had responded as, “*The company is in the initial stages of business operations. However, there is a long term power purchase agreement. The loss occurring in the Balance sheet is temporary in nature due to shortage of working capital. However, company has discussed with lenders to restructure the borrowings under resolution plan. Accordingly, management is confident that the position will improve in the near future. As such there is no case of impairment. Further we will disclose the matter in the Financial Statements.*” To this response of the Management the ET in the ‘Remarks’ column has noted, “*Ok, but the matter on restructuring is under discussion with the lenders as such the matter to be reported in Emphasis of Matter Para as the amount involved is material.*” WP ‘*File A1 Pg 100 point no. 9.07*’ contains the Management Representation letter which simply reiterates the matter presented in Note No. 40 to the standalone financial statements, without providing any further details. The Audit Firm has stated in their response “*on the basis of discussions with the Management, PPGCL had incurred losses in its early period of commencement of operations and that there will not be losses in the future years.*” However, there is no documentation of any formal plan or budget to explain

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that the contentions made by the Management were supported by any evidence and hence the response of the Audit Firm is without any basis. Having noted the amount involved as material, the Audit Firm should have been more skeptical in the conduct of their duties. However, apart from the notings made in WP *File no. A3.1 pg 2*, there are no records of the following traceable in the Audit File as claimed to have been done by the Audit Firm in their response:

- 1) significant influence of JAL over PPGCL;
- 2) accounting treatment followed by the company being appropriate;
- 3) Presentation and disclosure of the investments made in PPGCL by JAL.

ET has merely relied upon the management's representation and has gone ahead with issuing an EOM on this matter. Providing an EOM on this matter is not in accordance with the requirements of Para 6 of SA 706, as sufficient appropriate audit evidence is not obtained as to the accounting treatment followed by the company and also of its presentation and disclosure being appropriate. Section 2(6) of the Companies Act, 2013 defines associate company as a company in which that other company has a significant influence, but which is not a subsidiary company of the company having such influence and includes a joint venture company. Explanation to sub section (6) states that "significant influence" means control of at least twenty percent of total share capital or of business decisions under an agreement. Hence, on plain reading of the requirements of Section 2(6), one can clearly state that for a company to be classified as an associate company the parent company should have twenty percent of the total share capital of that other company or should have control of business decisions under an agreement. In the present case, JAL merely holds 11.49% of the total share capital of JIL and there is no documentation of any agreement by the ET, to substantiate the fact that JIL is the associate company of JAL. This clearly proves that JIL is not an associate company of JAL and the company (JAL) should have accounted for its investments made in JIL at "Fair Value" in terms of Ind AS 109. But, the company has in violation of the above accounted for the investments made in JIL in accordance with Ind AS 28 and the ET has also failed to identify the existence of material misstatements in the Financial Statements of JAL. For our detailed comments on WP '*File A3.4 (b) pg 49 to 50*', which contains impairment testing by the Audit Firm, please refer to Investments Para of this DAQRR.

- c. Therefore, NFRA concludes that the Audit Firm has:
 - i) Not exercised due diligence, and has been grossly negligent in the conduct of their professional duties;

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- ii) Not carried out the audit according to Standards on Auditing;
- iii) Not maintained professional skepticism, professional competence and due care and other ethical requirements during the audit and
- iv) Not ensured compliance with the provisions of the Companies Act, 2013.
- v) Not identified the material misstatements existing in the Financial Statements and brought it to the notice of Management and TCWG for timely corrections and failed to report on the same.

6.4 In communication dated 14th June 2021 the Audit Firm has submitted its response to the DAQRR dt. 30th March 2021 issued by NFRA, as follows:

“ET followed the audit procedures as stated in the reply to NFRA’s prima-facie comments dated 28th Nov 2020. ET had not separately documented regarding the followings which were pointed out by NFRA;

- *significant influence of JAL over PPGCL;*
- *accounting treatment followed by the company being appropriate;*
- *Presentation and disclosure of the investments made in PPGCL by JAL.*

*However, ET has examined that significant influence of JAL over PPGCL and raised observation on this matter, it is itself evidenced that ET had examined the records of the company and had knowledge on the subject matter. Further As per Ind AS 28 PPGCL still continued to be an associate of JAL due to later having significant influence over the former. Pursuant to definition of Associate as given in Ind AS 28, “An Associate is an entity over which the investor has significant influence” and further Ind AS 28 defines “significant influence as “the power to **participate** in the financial and operating policy decisions of the investee but is not control or joint control of the parties”. Further Para 6 of Ind AS 28 suggests, the existence of significant influence by an entity is usually evidenced in **one or more** of the following ways;*

- ✓ ***Representation on the board of director’s or equivalent governing body of the investee;***
- ✓ *Participation in policy making processes including participation in decisions about dividends or other distributions;*
- ✓ *Material transactions between entity and its investee;*
- ✓ *Interchange of managerial personnel;*
- ✓ *Provision of essential technical information;*

Above significant influence is derived from having one Managing director of JAL, Mr. Manoj Gaur, was also a Director of PPGCL, and having an important role in decision making of both the companies. Out of 12 directors on the board of PPGCL, there are three below mentioned common directors on the board of PPGCL and JAL, both as at 31 March 2018 which evidences the representation on the board of directors per above stated guidance.

- *Sunil Kumar Sharma (DIN no. 00008125)*
- *Sunny Gaur (DIN no. 00008293)*
- *Manoj Gaur (DIN no. 00008480)*

In light of the above facts, PPGCL was continued to be shown as investment in associate company of JAL as at 31 March 2018. As per Ind AS 109, company has exercised an option to keep the investment in associate at cost.

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Audit firm performed impairment testing of its investment in PPGCL per Ind AS 36, Impairment of assets. Refer file A3.4 (b) pg 49 to 50 in audit files submitted. As stated in PPGCL Impairment testing document, the Company is having long term PPA for sales of Electricity and Debt restructuring proposal has already been submitted with the lenders. On the basis of discussion with the Management ET understood that debt restructuring in PPGCL will have positive effect.

ET also reviewed the Audit report and financial statements of PPGCL. As per Note no. 32 of financial statements of PPGCL, first unit was commissioned in February 2016, second unit in September 2016 and third unit in May 2017. During these years plants was not operated at optimum level due to shortage of working capital. Company had PPA upto 90% of Power generated and also had FSA for meeting 90% coal (main raw material) requirement. Initially, the Company incurred losses in its early period of commencement of operations, on the basis of discussion with the management ET understood that there will not be losses in the future years.

ET had documented observation at final stage when he discussed the matter with CFO to finalize the audit report. However, the matter was already discussed with concerned staff and concerned officers of the company time to time. Further ET had also got Management Representation letter on this matter.

There may be some lapses on the ET part regarding documentation as observed by NFEA however, ET had verified the company's documents and then reached on the conclusion to give the EOM on this important matter and in light of Ind AS 28 read with Ind AS 36 it can be stated as that there is no material misstatements exists in the Financial Statements.”

6.5 The Audit Firm's responses dated 14th June 2021, to the NFRA DAQRR observations, have been examined and NFRA's observations thereon are as follows:

- a. NFRA notes that the Audit Firm has referred to WP 'A3.4 (b) pg 49 to 50 ' which was exactly the same WP that was reviewed by NFRA while framing its detailed DAQRR report. The Audit Firm has not provided references to any new WPs or any related audit evidence in support of their contentions made in [Para 6.4 above](#). Without prejudice to this, NFRA has perused the Audit Firm's response on its merit, if any.
- b. The submissions made by the Audit Firm in [Para 6.4 above](#) are the very same contentions made by them in their response to PFC and these have been examined in great detail by NFRA while framing its DAQRR observations in [Para 6.3](#). For the sake of brevity, NFRA has not reproduced its response and has only provided reference to specific part of [Para 6.3](#).
- c. The Audit Firm's response in [Para 6.4](#) that "ET had not documented regarding the followings as pointed out by NFRA" clearly proves NFRA's observations made in [Para 6.3 b\) above](#).
- d. The Audit Firm's contentions "As per Ind AS 28 PPGCL still continued to be an associate of JAL due to later having significant influence over the former" Above significant influence is derived from having one Managing director of JAL, Mr.

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Manoj Gaur, was also a Director of PPGCL, and having an important role in decision making of both the companies. Out of 12 directors on the board of PPGCL, there are three below mentioned common directors on the board of PPGCL and JAL, both as at 31 March 2018 which evidences the representation on the board of directors per above stated guidance.” are completely baseless and not acceptable because of the reasons stated in [Para 6.3 a\) above](#).

- e. The Audit Firm’s contentions “*ET had documented observation at final stage when he discussed the matter with CFO to finalize the audit report. However, the matter was already discussed with concerned staff and concerned officers of the company time to time*” are completely baseless and not acceptable because of the reasons stated in [Para 6.3 b\) above](#).

6.6 Therefore, NFRA concludes that the Audit Firm has:

- a. Not exercised due diligence, and has been grossly negligent in the conduct of its professional duties;
- b. Not carried out the audit according to the applicable Standards on Auditing;
- c. Not maintained professional skepticism, professional competence, due care and other ethical requirements during the audit, and
- d. Not ensured compliance with the provisions of the Companies Act, 2013.
- e. Not identified the material misstatements existing in the Financial Statements, failed to bring the same to the notice of Management and TCWG for timely corrections and failed to report on the same.

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**7. EOM ON NOT CREATING A PROVISION AGAINST AMOUNT INVESTED IN
MANDLA NORTH COAL MINE CASE**

7.1 Based on response of the Audit Firm, to the NFRA's questionnaire dated 30th September 2019, NFRA had conveyed the following prima facie conclusions on 30th September 2020.

a) In Independent Auditor's Report on the Standalone Financial Statements of Jaiprakash Associates Limited the Audit Firm has stated as follows in Para 5 of Emphasis of Matter Paragraph:

"As stated in Note No. 42 of the standalone financial statements, the company has received Termination Notice for Mandla North Coal Mine allotted by Nominated Authority, Ministry of Coal on account of not meeting eligibility criteria mentioned in the Coal Mines Development and Production Agreement along with instructions for invocation of the Bank Guarantee submitted by JAL in the form of Performance Security. The Hon'ble High Court has granted a stay against the Termination Notice and invocation of Performance Guarantee. Since, the matter is now sub-judice in High Court, the recoverability of the amount invested aggregating to Rs. 293 crores as on 31.03.2018 in the development of the Coal Block and impact of invocation of the Performance Guarantee is uncertain, no provision has been considered necessary to be made in the standalone financial statements."

b) The company in its Board of Director's Report for the FY 2017-18 has stated, *"Consequent to Supreme Court verdict dated 24.09.2014, allocation of 204 coal blocks including Amelia (North), Dongrital-II, & Mandla South allotted to MPSMCL and Mandla North to JAL were cancelled. Ministry of Coal decided to reallocate the cancelled coal blocks through e-auction/allocation. Amelia (North) and Mandla North Coal blocks which were categorized as Schedule-II (Mines producing coal or about to produce) were put for e-auction in first tranche wherein JPVL and JAL were declared successful for above blocks respectively. Subsequently JCCL also won Mandla South and Majra coal mines in the auction held for coal blocks in Schedule-III and tranche-III respectively."*

c) Under 'Status of each coal mine vested to JPVL, JAL and JCCL' section of Board of Directors report, it is stated that *'Mining activities in Mandla North coal mine were started in April 2015 and completed the drivage of 714m and 716m out of total length of 903m of each incline. Arising out of the process sale of few End Use Plants with M/s Ultratech, Nominated Authority was requested to include Churk Captive Power Plant in the list of End Use Plants in the vesting Order issued for Mandla North Coal Mine. The request was denied and Termination letter of Coal Mine Development and*

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Production Agreement and Vesting Order has been received on 12.03.2018 and 21.03.2018. A writ Petition No. 11368 has been filed in Allahabad High Court on 27.03.2018 with prayer for quashing the impugned letter and provide relief.”

- d) The Audit Firm in its *WP ‘A 3.1 Pg. No. 2’*, has documented its inquiries made to management *“During our audit it is found that, in the trial balance of Mandla North Coal Mine capital work in progress of Rs. 293. Crores is coming since long time and there is no addition made in the same from long time. Explain why the same should not be impaired/ charged to profit and loss if the same is not going to be capitalized. Further the company has also received Termination Notice for the Mandla North Coal Mine allotted by Nominated Authority, Ministry of Coal on account of not meeting eligibility criteria mentioned in the Coal Mines Development and Production Agreement along with instructions for invocation of the Bank Guarantee submitted by the company in the form of Performance Security. Explain why the provision should not be made in the books of accounts.”* To this inquiry made by the Audit Firm, the management has responded as, *“In the meantime restriction from government has been made on the development of coal mine however company is not charging the same in the P&L as this amount is likely to be recovered either by permission of use or by getting compensation from Nominated Authority. Further we have filed an appeal in the Hon’ble High Court and the court has granted a stay against the Termination Notice and invocation of Performance Guarantee. Since, the matter is now in High Court, and the management is confident that this amount is recoverable. However, we will give a suitable Note in the financial statements.”* To this reply of the management, Audit Firm has noted, *“ok, but the matter to be reported in Emphasis of Matter Para as the amount involved is material.”*
- e) *WP ‘Folder A1 Pg. No. 96 – 108’* contains the Management Representation letter which simply reiterates the matter presented in Note No. 42 to the standalone financial statements, without providing the details of the current status of the case and the probability of winning the case. There is no documentation that the Audit Firm had reviewed the Termination Notice received by the company and writ petition filed by the company in the Allahabad High Court. Further, there are no records of verification of the legal opinions, to cross verify the management’s contentions with respect to this matter. In the absence of any legal opinion, termination notice and writ petition filed by the Company in the Allahabad High Court in such a crucial matter, ET has merely relied upon the management’s representation and has gone ahead with issuing an EOM on this matter. Providing an EOM on this matter is not in accordance with the

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requirements of Para 6 of SA 706, as sufficient appropriate audit evidence is not obtained in this regard.

7.2 The Audit Firm in its reply to NFRA’s prima-facie comments dated 28th Nov 2020, has quoted Para A22 and A25 of SA 500 and Para 4 and 6 of SA 706 and has stated that *“Mandla coal mine was reallocated to the various companies (JAL and its group entities) for which company has incurred expenditure aggregating to Rs. 293 crores to drivage of 714m and 716m out of total length of 903m of each incline of the Mandla Coal mine. This expenditure was booked as Capital Work in Progress in the books of accounts, post which the mine allocation was cancelled by nominated authority. Further the Bank Guarantee submitted by JAL in the form of Performance security was also invoked by the Ministry of Coal. ET performed following audit procedures: ET held meetings with the Company’s legal department and also verified termination notice, Stay order and writ documents filed and inquired to understand the current status of the case. ET also held the meeting with CFO of the Company for the current status of the cases and also documented the same in their Memorandum of observation as per point No 8 (refer ‘File no. A3.1 pg 2’). ET also obtained the Management Representation Letter (refer ‘File A1 Pg 108 point no. 19.03’). In line with SA 706, since the matter involved uncertainty relating to the future outcome of these litigations, ET considered it appropriate to include it in the auditor’s report.”*

7.3 NFRA had examined the above contentions of the Audit Firm, received in response to the above noted NFRA’s PFC, and had concluded as follows in its DAQRR dated 30th March 2021:

- a. NFRA notes that there are no WP references made by the Audit Firm wherein they have examined the termination notice, Stay order and writ documents filed and inquiries made with Company’s legal team to understand the current status of the case. Hence, these responses are without any basis and it would be considered as an afterthought.
- b. NFRA notes that the Audit Firm has referred to WPs ‘File A3.1 pg 2 and File A1 Pg 108-point no. 19.03’ to support its submissions made. These are exactly the same as referred by NFRA while giving its detailed prima facie conclusions. There are no other WPs referred by the Audit Firm in support of their submissions made in response to PFC. Nevertheless, NFRA has referred to the WPs and notes as follows i.e., in WP ‘A 3.1 Pg. No. 2’, the Audit Firm has documented its inquiries made to management *“During our audit it is found that, in the trial balance of Mandla North Coal Mine capital work in progress of Rs. 293. Crores is coming since long time and there is no addition made in the same from long time. Explain why the same should not be*

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impaired/ charged to profit and loss if the same is not going to be capitalized. Further the company has also received Termination Notice for the Mandla North Coal Mine allotted by Nominated Authority, Ministry of Coal on account of not meeting eligibility criteria mentioned in the Coal Mines Development and Production Agreement along with instructions for invocation of the Bank Guarantee submitted by the company in the form of Performance Security. Explain why the provision should not be made in the books of accounts.” To this inquiry made by the Audit Firm, the management has responded as, “In the meantime restriction from government has been made on the development of coal mine however company is not charging the same in the P&L as this amount is likely to be recovered either by permission of use or by getting compensation from Nominated Authority. Further we have filed an appeal in the Hon’ble High Court and the court has granted a stay against the Termination Notice and invocation of Performance Guarantee. Since, the matter is now in High Court, and the management is confident that this amount is recoverable. However, we will give a suitable Note in the financial statements.” To this reply of the management, Audit Firm has noted, “ok, but the matter to be reported in Emphasis of Matter Para as the amount involved is material. In WP ‘File A1 Pg. No. 96 – 108’ the Audit Firm has documented the Management Representation letter which simply reiterates the matter presented in Note No. 42 to the standalone financial statements, without providing the details of the current status of the case and the probability of winning the case. Having noted the amount involved as material, the Audit Firm should have been more skeptical in the conduct of their duties. However, apart from the notings made in WP File no. A3.1 pg 2, there are no records of the following traceable in the Audit File as claimed to have been done by the Audit Firm in their response:

- 1) Minutes of meetings held with the company’s legal department.
- 2) Verification of termination notice, stay order and writ documents filed

Further, the Audit Firm has also not referred to any WP wherein it can be established that they had verified the legal opinions, to cross verify the management’s contentions with respect to this matter. In the absence of any documentation of legal opinion, termination notice and writ petition filed by the Company in the Allahabad High Court in such a crucial matter, ET has merely relied upon the management’s representation and has gone ahead with issuing an EOM on this matter. Providing an EOM on this matter is not in accordance with the requirements of Para 6 of SA 706, as sufficient appropriate audit evidence is not obtained in this regard.

- c. Therefore, NFRA concluded that the Audit Firm had:

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- i) Not carried out the audit according to Standards on Auditing.
- ii) Not maintained professional skepticism, professional competence and due care and other ethical requirements during the audit, and
- iii) Not exercised due diligence and has been grossly negligent in the conduct of their professional duties.
- iv) Not ensured compliance with the provisions of the Companies Act, 2013.

7.4 In communication dated 14th June 2021 the Audit Firm has submitted its response to the DAQRR dt. 30th March 2021 issued by NFRA, as follows:

“ET followed the audit procedures as stated in the reply to NFRA’s prima-facie comments dated 28th Nov 2020. ET had not documented regarding the followings as pointed out by NFRA;

- *Minutes of meetings held with the company’s legal department.*
- *Verification of termination notice, stay order and writ documents filed*

However, ET raised observation on this matter first time, and it is itself evidence that ET had examined the records of the company and had knowledge on the subject matter. ET had documented observation at final stage when he discussed the matter with CFO to finalize the audit report. However, the matter was already discussed with concerned staff and concerned officers of the company time to time. Further ET had also got Management Representation letter on this matter.

There may be some lapses on the ET part regarding documentation as observed by NFRA however, ET had verified the company’s documents and then reached on the conclusion to give the EOM on this important matter.”

7.5 The Audit Firm’s responses dated 14th June 2021, to the NFRA DAQRR observations, have been examined and NFRA’s observations thereon are as follows:

- a. NFRA notes that the Audit Firm has failed to provide any WP references or any other audit evidence from the audit file to support its submissions. Hence, these responses are without any basis and are an afterthought only. Without prejudice to this, NFRA has perused the Audit Firm’s response on its merit, if any.
- b. The submissions made by the Audit Firm in [Para 7.4](#) above are the very same contentions made by them in their response to PFC and these have been examined in great detail by NFRA while framing its DAQRR observations in [Para 7.3](#). For the sake of brevity, NFRA has not reproduced its response and has only provided reference to specific part of [Para 7.3](#).
- c. The Audit Firm’s response in [Para 7.4](#) that *“ET had not documented regarding the followings as pointed out by NFRA*” clearly proves NFRA’s observations made in [Para 7.3 b\) above](#).
- d. The Audit Firm’s contentions *“ET had documented observation at final stage when he discussed the matter with CFO to finalize the audit report. However, the matter was*

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already discussed with concerned staff and concerned officers of the company time to time” are completely baseless and not acceptable because of the reasons stated in [Para 7.3 b\) above](#).

- e. ET has merely relied up on the Management Representation Letter which was reiterating the same facts as reproduced in Note No. 42 of the Standalone Financial Statements, for providing EOM Para. Hence, ET has failed to obtain Sufficient Appropriate Audit Evidence, as required by Para 6 of SA 706. Further, providing EOM Para on such an important financial statement item without obtaining Sufficient Appropriate Audit Evidence is not in accordance with SA 706.

7.6 Therefore, NFRA concludes that the Audit Firm has:

- a. Not exercised due diligence, and has been grossly negligent in the conduct of its professional duties;
- b. Not carried out the audit according to the applicable Standards on Auditing;
- c. Not maintained professional skepticism, professional competence, due care and other ethical requirements during the audit, and
- d. Not ensured compliance with the provisions of the Companies Act, 2013.

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8. EOM ON MATTERS WHERE EXTERNAL CONFIRMATIONS WERE NOT OBTAINED
BY THE ET

8.1 Based on response of the Audit Firm, to the NFRA's questionnaire dated 30th September 2019, NFRA had conveyed the following prima facie conclusions on 30th September 2020:

a) The Audit Firm in Para 6 of EOM has stated as follows:

“As Stated in Note No. 43 of the standalone financial statement, the Confirmations/ Reconciliation of balances of certain secured & unsecured loans, balances with banks, trade receivables, trade and other payables (including capital creditors) (including receivable/ payables from/ to related parties) and loans and advances are pending. The management is confident that on confirmation / reconciliation there will not be any material impact on the standalone financial statements.”

b) Audit Firm has in their response to NFRA query 2.8 stated that, *“This note was in respect of the balances of certain secured & unsecured loans, balances with banks, trade receivables, trade and other payables (including capital creditors) (including receivables/payables from/ to related parties) and loans and advances because the independent balance confirmations were not received by the ET for these balances. Since the Company's restructuring exercise was going on during the year, hence the balances were not reconciled and till the time, the restructuring exercise was not completed, the management of the Company could not reconcile the balances.”*

c) Para 112 of Ind AS 1 states that the notes shall:

- 1) Present information about the basis of preparation of the financial statements and the specific accounting policies used in accordance with Paragraphs 117-124;
- 2) Disclose the information required by Ind ASs that is not presented elsewhere in the financial statements; and
- 3) Provide information that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of them.

Para 113 of Ind AS 1 states that an entity shall present notes in a systematic manner. In determining a systematic manner, the entity shall consider the effect on the understandability and comparability of its financial statements. An entity shall cross-reference each item in the balance sheet and in the statement of profit and loss, and in the statement of changes in equity and of cash flows to any related information in the notes.

d) It is to be noted that disclosures are a fundamental part of financial statements, seen as an increasingly important way for preparers to communicate deeper insights about the

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entity's financial position and financial performance than is possible through primary financial statements alone. Notes to financial statements give the explanation of line items appearing in balance sheet, profit and loss and cash flow statement by the management to facilitate better understanding of these financial statements by the users.

- e) The Audit Firm has not provided any references to the Audit File, in their response to NFRA query 2.8 for ensuring that request for balance confirmations were in fact sent by the ET or the management and also to ensure that they have not received the balance confirmations from the respective parties as on the date of signing of the Audit Report. Further, the items presented in Note 43 to the Standalone Financial Statements do not meet the requirements of Para 112 and 113 of Ind AS 1, as they cover wide areas of Non-current assets, Current assets, Non-current liabilities and current liabilities of the company. Note 43 in itself does not provide any information for better understanding of the items presented in the financial statements and hence, it cannot be construed as appropriately presented or disclosed in the financial statements. Since the matter in Note 43 is not appropriately presented or disclosed, providing an EOM Paragraph on such matter is not in accordance with the requirements of Para 6 of SA 706.

8.2 The Audit Firm in its reply to NFRA's prima-facie comments dated 28th Nov 2020, has quoted Para 4 of SA 200 and Para 2 of SA 505 and further stated that "*Pursuant to Para 2 of SA 505, external confirmations were sent to bank, debtors and creditors but the same were not received back with responses hence matter of emphasis was drafted to mention that these confirmations were not received and we had to rely on respective alternate procedures to validate the sanity of balances standing for these accounts as at 31 March 2018. Further management had additionally put this matter into notes to financial statements from which cross referencing to matter of emphasis was done.*"

8.3 NFRA had examined the above contentions of the Audit Firm, received in response to the above noted NFRA's PFC, and had concluded as follows in its DAQRR dated 30th March 2021:

- a. NFRA notes that there are no WP references made by the Audit Firm to support its contentions that it has in fact sent external confirmations to banks, debtors and creditors for verifying the balances and also there are no WPs referred by the Audit Firm to substantiate their contentions in the absence of external confirmations, that they had performed alternate audit procedures to validate the various account balances and hence, these responses are without any basis and it would be considered as an afterthought. Further, the Audit Firm has not submitted any of its objections to the

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NFRA's PFC that "the items presented in Note 43 to the Standalone Financial Statements do not meet the requirements of Para 112 and 113 of Ind AS 1, as they cover wide areas of Non-current assets, Current assets, Non-current liabilities and current liabilities of the company. It is to be noted that disclosures are a fundamental part of financial statements, seen as an increasingly important way for preparers to communicate deeper insights about the entity's financial position and financial performance than is possible through primary financial statements alone. Notes to financial statements give the explanation of line items appearing in balance sheet, profit and loss and cash flow statement by the management to facilitate better understanding of these financial statements by the users. Note 43 in itself does not provide any information for better understanding of the items presented in the financial statements and hence, it cannot be construed as appropriately presented or disclosed in the financial statements. Since the matter in Note 43 is not appropriately presented or disclosed, providing an EOM Paragraph on such matter is not in accordance with the requirements of Para 6 of SA 706" and hence these observations of NFRA stands proved.

- b. Therefore, NFRA concludes that the Audit Firm has:
- i) Not carried out the audit according to Standards on Auditing.
 - ii) Not maintained professional skepticism, professional competence and due care and other ethical requirements during the audit ,and
 - iii) Not exercised due diligence and has been grossly negligent in the conduct of their professional duties.
 - iv) Not ensured compliance with the provisions of the Companies Act, 2013.

8.4 In communication dated 14th June 2021 the Audit Firm has submitted its response to the DAQRR dt. 30th March 2021 issued by NFRA, as follows:

"ET followed the audit procedures as stated in the reply to NFRA's prima-facie comments dated 28th Nov 2020. However, there may be some lapses on the ET part regarding documentation as observed by NFRA however, ET had asked the balance confirmation from outside parties and in the absence of these use alternate procedure to verify the balances and then reached on the conclusion to give the EOM on this important matter."

8.5 The Audit Firm's responses dated 14th June 2021, to the NFRA DAQRR observations, have been examined and NFRA's observations thereon are as follows:

- a. NFRA notes that the Audit Firm has failed to provide any WP references or any other audit evidence from the audit file to support its submissions. Hence, these responses are without any basis and are an afterthought only. Without prejudice to this, NFRA has perused the Audit Firm's response on its merit, if any.

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- b. The submissions made by the Audit Firm in [Para 8.4](#) above are the very same contentions made by them in their response to PFC and these have been examined in great detail by NFRA while framing its DAQRR observations in [Para 8.3](#). For the sake of brevity, NFRA has not reproduced its response and has only provided reference to specific part of [Para 8.3](#).
- c. The Audit Firm's contentions "*ET had documented observation at final stage when he discussed the matter with CFO to finalize the audit report. However, the matter was already discussed with concerned staff and concerned officers of the company time to time*" are completely baseless and not acceptable because of the reasons stated in [Para 8.3 a\) above](#).
- d. ET has merely relied up on the Management Representation Letter which was reiterating the same facts as reproduced in Note No. 43 of the Standalone Financial Statements, for providing EOM Para. Hence, ET has failed to obtain Sufficient Appropriate Audit Evidence, as required by Para 6 of SA 706. Further, providing EOM Para on such an important financial statement item without obtaining Sufficient Appropriate Audit Evidence is not in accordance with SA 706.

8.6 Therefore, NFRA concludes that the Audit Firm has:

- a. Not exercised due diligence, and has been grossly negligent in the conduct of its professional duties;
- b. Not carried out the audit according to the applicable Standards on Auditing;
- c. Not maintained professional skepticism, professional competence, due care and other ethical requirements during the audit, and
- d. Not ensured compliance with the provisions of the Companies Act, 2013.

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9. EOM ON ENTRY TAX MATTERS

9.1 Based on response of the Audit Firm, to the NFRA’s questionnaire dated 30th September 2019, NFRA had conveyed the following prima facie conclusions on 30th September 2020:

a) The Audit Firm in Para 7 of EOM has stated as follows:

“As stated in Note No. 45 of the standalone financial statements, there are certain Entry tax matters under Appeals aggregating to Rs. 510.59 crores (excluding interest, currently unascertainable) pertaining to the state of Uttar Pradesh, Madhya Pradesh and Himachal Pradesh. The company has challenged those on account of constitutional validity etc. in Hon’ble High Courts/Supreme Court. No provision has been made of the above in the standalone financial statements and management is of the opinion that the company will succeed in the appeal. The company has already deposited Rs. 299.93 crores and also furnished bank guarantee of Rs. 202.66 crores against the above.”

b) On a plain reading of Para 6 of SA 706, it is clearly evident that for matters on which EOM has to be given, the Audit Firm should have obtained sufficient appropriate audit evidence that the matter is not materially misstated and also the fact that the matter should have been appropriately presented and disclosed in the financial statements.

c) WP ‘File A1 Pg 104 point no. 15.07’ contains the Management Representation letter which simply reiterates the matter presented in Note No. 45 to the standalone financial statements, without providing the details of the current status of the case and the probability of winning the case. Further, there are no records of verification of the legal opinion, in order to cross verify the management’s contentions with respect to this matter. In the absence of any legal opinion in such a crucial matter, ET has merely relied upon the management’s representation and has gone ahead with issuing an EOM on this matter. Providing an EOM on this matter is not in accordance with the requirements of Para 6 of SA 706, as sufficient appropriate audit evidence is not obtained.

9.2 The Audit Firm in its reply to NFRA’s prima-facie conclusions dated 28th Nov 2020, has quoted Para A22 and A25 of SA 500 and Para 4 and 6 of SA 706 and has further stated that *“ET has followed the following audit procedures to understand and check the current status of this matter: ET has studied appeal documents filed by the company. ET also verified the amount deposited and also reviewed accounting treatment of this deposit in books of accounts. ET also verified bank guarantee filed by the company and the disclosure of the same. ET also held meetings with the Company’s legal department, gathered information as per ‘File A3.3 page no. 260 (Caro Check list)’ and was also inquired to understand the current status of the case.*

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ET also studied the financial statements of other companies for this case as this case was nationwide filed. ET also held the meeting with CFO of the Company for the current status of the cases and also documented the same in their Memorandum of observation as per point No 9 (refer 'File no. A3.1 pg 2'). ET also obtained the Management Representation (refer 'File A1 Pg 104 point no. 15.07'). Thereafter ET formed opinion in line with SA 706 since there is an uncertainty relating to the future outcome of this exceptional litigation. This matter was appropriately presented and disclosed in the financial statements and auditors reached on the judgment that it is additional communication in the auditor report for users to better understand the financial statements."

9.3 NFRA had examined the above contentions of the Audit Firm, received in response to above noted NFRA's PFC, and had concluded as follows in its DAQRR dated 30th March 2021:

- a. NFRA notes that the Audit Firm has referred to WPs *File 'A3.3 pg no. 260 (Caro checklist)*, *'File A3.1 pg 2'* and *'File A1 Pg 104 point no. 15.07'* to support its submissions made. These are exactly the same as referred by NFRA while giving its detailed prima facie conclusions. There are no other WPs referred by the Audit Firm in support of their submissions made in response to PFC. Nevertheless, NFRA has referred to the WPs and notes as follows i.e., in WP *'File A1 Pg 104 point no. 15.07'* the Audit Firm has documented Management Representation letter which simply reiterates the matters presented in Note No. 45 to the standalone financial statements, without providing the details of the current status of the case and the probability of winning the case. Further, there are no records of verification of the legal opinion, in order to cross verify the management's contentions with respect to this matter. WP *'File A3.3 page no. 260 (Caro Check list)'* contains the provisional details of contingent liabilities as on 31.03.2018 from cement division. The Audit Firm has merely documented the statement provided by the Management. The audit procedures applied by the ET and the conclusions reached by them are not traceable from the referred WP. Further in WP *'File no. A3.1 pg 2'* titled as *'Action taken report to Memorandum observations for discussion with Management'*, the Audit Firm has posed a query to the Management asking them to explain why the provision of Entry tax amounting to Rs. 510.59 crores and interest thereon pertaining to the States of UP, MP and Himachal Pradesh was not made in the books of account. To this query of the Audit Firm, Management had responded as, *"Entry tax Act is a matter which has been challenged nationwide on account of constitutional validity. Company has also filed appeal in Hon'ble High Courts/ Supreme Court and we are of the opinion that the company will succeed in the appeal. Further, the company has already deposited Rs. 299.93 crores*

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and also furnished Bank Guarantees of Rs. 202.66 crores against the entry tax demand as such if the company loses the case there will not be material amount of interest which will be imposed on the company.” To this response of the Management the ET in the ‘Remarks’ column has noted, “Ok, but the matter to be reported in Emphasis of Matter Para as the amount involved is material.” Having noted the amount involved as material, the Audit Firm should have been more skeptical in the conduct of their duties. However, apart from the notings made in WP File no. A3.1 pg 2, there are no records of the following traceable in the Audit File as claimed to have been done by the Audit Firm in their response:

- 1) Verification of Appeal documents filed by the company.
- 2) Verification of amount deposited and review of accounting treatment of deposit in the Books of Accounts.
- 3) Verification of bank guarantees filed by the company and disclosure of the same.
- 4) Minutes of meetings held with company’s legal department, and
- 5) Studying the Financial Statements of other companies dealing with similar matter

On a plain reading of Para 6 of SA 706, it is clearly evident that for matters on which EOM has to be given, the Audit Firm should have obtained sufficient appropriate audit evidence that the matter is not materially misstated and also the fact that the matter should have been appropriately presented and disclosed in the financial statements. In the instant case as explained above, the Audit Firm has failed to obtain the sufficient appropriate audit evidence and it has also failed to ensure that the matter on which EOM is issued is free from material misstatement. Hence issuing an EOM on such a crucial matter is not in accordance with the requirements of Para 6 of SA 706.

- b. Therefore, NFRA concludes that the Audit Firm has:
 - i) Not exercised due diligence and has been grossly negligent in the conduct of their professional duties.
 - ii) Not carried out the audit according to Standards on Auditing.
 - iii) Not maintained professional skepticism, professional competence and due care and other ethical requirements during the audit, and
 - iv) Not ensured compliance with the provisions of the Companies Act, 2013.

9.4 In communication dated 14th June 2021 the Audit Firm has submitted its response to the DAQRR dt. 30th March 2021 issued by NFRA, as follows:

“ET followed the audit procedures as stated in the reply to NFRA’s prima-facie comments dated 28th Nov 2020. ET had not documented regarding the followings as observed by NFRA;

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- *Verification of Appeal documents filed by the company*
- *Verification of bank guarantees filed by the company and disclosure of the same*
- *Minutes of meetings held with company's legal department and*
- *Studying the Financial Statements of other companies dealing with similar matter*

However, ET documented verification of amount deposited and review of accounting treatment of deposit in the Books of Accounts in the form of Trial Balances, Grouping of Balance Sheet etc.

Moreover, ET raised observation on this matter first time and it is itself evidence that ET had examined the records of the company and had knowledge on the subject matter. ET had documented observation at final stage when he discussed the matter with CFO to finalize the audit report. However, the matter was already discussed with concerned staff and concerned officers of the company time to time only after verification of the records as mentioned in reply to NFRA's prima-facie comments dated 28th Nov 2020. Further ET had also got Management Representation letter on this matter.

There may be some lapses on the ET part regarding documentation which were pointed out by the NFRA however, ET had verified the company's documents and then reached on the conclusion to give the EOM on this important matter."

9.5 The Audit Firm's responses dated 14th June 2021, to the NFRA DAQRR observations, have been examined and NFRA's observations thereon are as follows:

- a. NFRA notes that the Audit Firm has failed to provide any WP references or any other audit evidence from the audit file to support its submissions. Hence, these responses are without any basis and are an afterthought only. Without prejudice to this, NFRA has perused the Audit Firm's response on its merit, if any.
- b. The submissions made by the Audit Firm in [Para 9.4](#) above are the very same contentions made by them in their response to PFC and these have been examined in great detail by NFRA while framing its DAQRR observations in [Para 9.3](#). For the sake of brevity, NFRA has not reproduced its response and has only provided reference to specific part of [Para 9.3](#).
- c. The Audit Firm's response in Para 8.4 that "*ET had not documented regarding the followings as pointed out by NFRA*" clearly proves NFRA's observations made in [Para 9.3 a\) above](#).
- d. The Audit Firm's contentions "*ET had documented observation at final stage when he discussed the matter with CFO to finalize the audit report. However, the matter was already discussed with concerned staff and concerned officers of the company time to time*" are completely baseless and not acceptable because of the reasons stated in [Para 9.3 a\) above](#).
- e. ET has merely relied up on the Management Representation Letter which was reiterating the same facts as reproduced in Note No. 45 of the Standalone Financial

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Statements, for providing EOM Para. Hence, ET has failed to obtain Sufficient Appropriate Audit Evidence, as required by Para 6 of SA 706. Further, providing EOM Para on such an important financial statement item without obtaining Sufficient Appropriate Audit Evidence is not in accordance with SA 706.

9.6 Therefore, NFRA concludes that the Audit Firm has:

- a. Not exercised due diligence, and has been grossly negligent in the conduct of its professional duties;
- b. Not carried out the audit according to the applicable Standards on Auditing;
- c. Not maintained professional skepticism, professional competence, due care and other ethical requirements during the audit, and
- d. Not ensured compliance with the provisions of the Companies Act, 2013.

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10. EOM ON DEBT REALIGNMENT PLAN

10.1 Based on response of the Audit Firm, to the NFRA’s questionnaire dated 30th September 2019, NFRA had conveyed the following prima facie conclusions on 30th September 2020:

- a) The Audit Firm in Para 8 of EOM has stated as follows:
 - i) *“As stated in Note no. 46 of the standalone financial statements, the lenders of the company in their Joint Lenders Forum (JLF) meeting held on 22nd June, 2017 have approved restructuring/ realignment/ reorganization of debt of the company & its wholly owned subsidiary, JCCL. The company has reworked the finance cost pertaining to Financial Year 2016-17 in accordance with the Lenders approved debt restructuring/ realignment/ reorganization scheme.*
 - ii) *For the FY 17-18, the company has provided interest expenses on the debt portion that will remain with the company in accordance with the restructuring scheme approved and Master Re-structuring Scheme (MRA) signed with the Lenders. Interest aggregating to Rs. 796.39 crores on debt portion of Rs. 11,091.27 crores which will be transferred to Real Estate SPV namely Jaypee Infrastructure Development Limited (JIDL) on order of Hon’ble National Company Law Tribunal (NCLT), Allahabad with the appointed date of 01st July, 2017 has been added to the carrying cost of Inventory/ Projects under Development in respect of SDZ Real Estate Undertaking [SDZ-RE], since the same has to be serviced from the assets/ development of Assets of SDZ-RE and as such no further impact in this respect on the financial results is envisaged.*
 - iii) *As a part of restructuring/ reorganization/ realignment of the debt of the company, the Scheme of Demerger of the Undertaking (SDZ-RE) comprising identifiable moveable and immovable assets and liabilities to be transferred to and vested in the wholly owned subsidiary of the company, namely Jaypee Infrastructure Development Limited (JIDL) as a going concern, on a slump exchange basis is pending for sanction with NCLT Allahabad.”*
- b) Audit Firm has in their response to NFRA query 2.10 stated that, *“ET verified reversal of interest. Interest reversal was done as per MRA which described that rate of interest was reduced retrospectively. Since this was not a regular nature of transaction and the amount involved was material and hence the same was shown in Note no 30 exceptional item – gain/(loss) in the financial statement of the Company.”*
- c) WP A 3.1 Pg. No. 113 (Finance Cost) & 116 (Exceptional Items) titled as ‘Analytical Procedures in Planning the Audit’ contains the reasons for changes in the figures of

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various financial statement items in FY 2017-18 as compared to FY 2016-17, as follows:

- 1) The Audit Firm has noted in Pg. No. 113 of WP A3.1, a negative difference of Rs. 256.96 cr. in Finance Costs [Rs. 198.50 cr (FY 2017-18) and Rs. 455.46 cr (FY 2016-17)]. ET has recorded the reasons for changes as, *“Finance Cost is reduced since identified cement plants sold in the end of the first quarter to Ultra Tech Cement Limited ‘UTCL’. Company has signed Master Restructuring Agreement ‘MRA’ with Banks. According to MRA, loans have been divided into three parts. 1st part of the loan Rs. 9,019 cr during the year (Excluding Rs. 1,000 cr to be paid to the lenders through redemption of Redeemable Preference Shares(RPS) Series-A issued by UTCL which is pertaining to certain Conditions Precedents (CPs) related to JP Sugar Plant in Uttar Pradesh) has been repaid out of proceeds of sale of cement plants, 2nd part sustainable debts of Rs. 5,589 cr during the year will remain with the company and company provide the interest on this loan and 3rd part of the loan Rs. 11,091.27 cr (after adjustment DAS etc) during the year has been parked and to be transferred to the SPV interest on which Rs. 796.39 cr included in the cost of inventory of SDZ unit.”*
- 2) In Pg. No. 116 of WP A 3.1, ET has recorded that *“According to MRA as explained in finance cost of cement division, rate of interest has been reduced to 9.50% with retrospective effect. Accordingly finance expenses recognized earlier has been reversed during the year. Since this is not a regular nature transaction and amount involved is huge (Rs. 1,008.88 cr) which materially affect the decision of stakeholders accordingly it has been shown as Exceptional Item.”*
- d) WP K 10.2 contains the ‘Master Restructuring Agreement’, dated October 31, 2017 between Jaiprakash Associates Limited and ICICI Bank Ltd. (as the Monitoring Institution) and the Banks and Financial Institutions.
- e) During the FY 2017-18, the company had requested its lenders to realign its debt in line with cash flow projections post divestment of cement plants. As per the Debt Realignment Plan (DRP), the total debt of the company and JCCL (wholly owned subsidiary of the company) had been segregated into sustainable debt and unsustainable debt. While sustainable debt of JAL & JCCL was to be retained in the company (JAL), the unsustainable debt would be transferred to new Real Estate SPV, the scheme of demerger of which is pending sanction by NCLT Allahabad. Post approval of DRP by all the lenders MRA was signed by all lenders on 31st October, 2017.

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- f) NFRA has analyzed the referred WPs in detail and it is clearly evident that based on the Master Restructuring Agreement the company has:
- i) reversed the interest costs of Rs. 1,176.59 crore pertaining to earlier years (Note 30 of the Standalone Financial Statements in the Annual Report for the FY 2017-18),
 - ii) Classified its debts into various buckets.

As can be seen from WP A3.1 Pg. No. 116, the ET has noted that “According to MRA as explained in finance cost of cement division, rate of interest has been reduced to 9.50% with retrospective effect.” However, on perusal of the MRA, it is nowhere mentioned that interest rate has been reduced with retrospective effect. The ET has also failed to evaluate from which date the interest reversals are to be computed for recognizing the interest reversals in the Financial Statements. The ‘Cut-Off Date’ as per MRA is September 30, 2016. This clearly means that the company should have accounted for interest reversals for only 2 quarters of the FY 2016-17, instead of reversing the interest expenses of the earlier years. There are no WPs traceable in the Audit File which explains the period for which the interest reversals are computed and accounted for and also to ensure that the reversals of the interest costs are in fact verified and the observations and conclusions made by the ET.

- g) There were no WPs traceable in the Audit File, which showed the audit procedures applied by the ET to evaluate whether the classification of debts of the company was in accordance with the provisions of MRA and their observations and conclusions after performing such audit procedures. A copy of MRA was provided in the Audit File; however, the ET’s understanding of the provisions of the agreement and its impact on the overall Financial Statements of the company was not traceable in the Audit File. Thus, NFRA concluded that ET failed to obtain sufficient appropriate audit evidence and also to ensure that the matter for which EOM was to be issued is free from material misstatements and hence providing EOM on such a crucial matter without actually performing any audit procedures, was not in accordance with the requirements of Para 6 of SA 706. Rather, ET should have modified their opinion.

10.2 The Audit Firm in its reply to NFRA’s prima-facie conclusions dated 28th Nov 2020, has quoted Para 8 of SA 706 and further stated that “*aligned to ‘WP A 3.1 Pg. No. 113 (Finance Cost) & 116 (Exceptional Items)’ titled as ‘Analytical Procedures’, negative movement of Rs. 256.96 cr. in Finance Costs [Rs. 198.50 cr. (FY 2017-18) and Rs. 455.46 cr. (FY 2016-17)] relates to below reasons. Company has signed Master Restructuring Agreement ‘MRA’ with Banks according to which loans have been divided into three parts leading to decline in financing cost:*

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- *1st part of the loan Rs. 9,019 cr. during the year (Excluding Rs. 1,000 crores to be paid to the lenders through redemption of Redeemable Preference Shares (RPS) Series-A issued by UTCL which is pertaining to certain Conditions Precedents (CPs) related to JP Sugar Plant in Uttar Pradesh) has been repaid out of proceeds of sale of cement plants to Ultratech Cement Limited. This proportionate sale has reduced the overall loan amount which in turn has a negative impact on financing cost.*
- *2nd part sustainable debts of Rs. 5,589 Cr. during the year remained with the company and company provided the interest on this loan.*
- *3rd part of the loan Rs. 11,091.27 cr. (after adjustment DAS etc) during the year has been parked and to be transferred to the SPV interest on which Rs. 796.39 cr. included in the cost of inventory of SDZ unit hence reducing the finance cost on this component earlier loaded into entity's main finance cost, since now it will be part of separate class of assets to be transferred to SPV.*

Per WP A3.1 Pg. No. 116, the interest cost is reduced to 9.5% with retrospective effect, while we understand the Master Restructuring Agreement does not specifically mention the word 'retrospective' but the intent of the agreement is to put the interest expense at a reduced rate of 9.5% starting 1 April 2016, per clause 2.3 of MRA. This suggests that the interest is reduced to 9.5% from 1 April 2016. The cutoff date mentioned in the MRA is 30th September 2016, however the agreement was executed later than the cut-off date. Till execution of the agreement, the earlier higher rate of interest was accounted which was reduced to 9.5% P.a. later with the reversal. While executing the MRA in FY 2018, the higher interest charged for the period starting 1 April 2016 till the execution of the agreement (till when higher rate of interest was charged), the excess interest over and above 9.5% was reversed. This constituted the reversal of previous years since the effect was taken starting from 1 April 2016 as mentioned in the MRA. Classification of loan was done in 3 tranches per the MRA as below and the same was affected accordingly:

- *Sale of cement plants to Ultratech – related assets/liabilities of this business went out of JAL financials and sale proceeds recorded as required*
- *Sustainable debts of Rs. 5,589 Cr. remained in the entity and continued to be classified as 'loans'*
- *Unsustainable debts of Rs. 11,091.27 cr. during the year have been parked and to be transferred to the SPV interest on which Rs. 796.39 cr. included in the cost of inventory of SDZ unit.*

Above classification of debt were traced and checked through respective audit procedures. EOM was given owing to significance of the amounts involved in Note 46 along with recording

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exceptional item in financial statements. To our judgment, neither above facts calls for modification in accordance with SA 705 since the accounting treatment taken for debt restructure plan is done correctly in financial statement hence there is no misstatement in financial numbers.”

10.3 NFRA had examined the above contentions of the Audit Firm, received in response to above noted NFRA’s PFC, and had concluded as follows in its DAQRR dated 30th March 2021:

- a. NFRA notes that the Audit Firm has referred to WPs *File A3.1 pg no. 113 (Finance Cost) & 116 (Exceptional items)*’ to support its submissions made. These are exactly the same as referred by NFRA while giving its detailed prima facie conclusions. There are no other WPs referred by the Audit Firm in support of their submissions made in response to PFC. Nevertheless, NFRA has referred to the WPs and notes as follows in WP *‘A 3.1 Pg. No. 113 (Finance Cost) & 116 (Exceptional Items)’* titled as *‘Analytical procedures in planning the audit:’* ET has done analytical procedures on the financials of various divisions of the company (cement, construction, real estate, hotel, and power) and has noted the reasons for variances. In the cement division under the head Finance Cost, ET has observed a variance of -56% and in ‘Reasons’ column, ET has noted that finance costs have reduced since identified cement plants are sold to UTCL and also the fact that the company has signed MRA with banks. Apart from these notings, there is nothing in the WP which explains the ET’s verification of reversal of the interest cost by the company. The Audit Firm has not referred to any WP which explains its verification of reversal of interest costs of Rs. 1,176.59 crores by the company. NFRA had in its PFC noted that *“on perusal of the MRA, it was nowhere mentioned that interest rate had been reduced with retrospective effect.”* Further, Audit Firm through its response has also agreed to the observations made by NFRA *“while we understand the Master Restructuring Agreement does not specifically mention the word ‘retrospective’, but the intent of the agreement is to put the interest expense at a reduced rate of 9.5% starting 1 April 2016....”* There are no WPs referred by the Audit Firm wherein it has finally reached to the conclusion that interest reversals shall be for the period starting from April 1, 2016. There is no documentation of bank confirmations to cross verify whether the accounting treatment made by the company with respect to interest reversals are in accordance with the MRA and whether the bank liabilities are properly accounted and disclosed in the financial statements. Given these reasons, the contentions of the Audit Firm made above are without any basis.
- b. NFRA notes that there are no WP references made by the Audit Firm to support its submissions made and hence, these responses are without any basis and it would be

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considered as an afterthought. On a plain reading of Para 6 of SA 706, it is clearly evident that for matters on which EOM has to be given, the Audit Firm should have obtained sufficient appropriate audit evidence that the matter is not materially misstated and also the fact that the matter should have been appropriately presented and disclosed in the financial statements. In the instant case as explained in Para 1.2 a) above, the Audit Firm has failed to obtain the sufficient appropriate audit evidence and it has also failed to ensure that the matter on which EOM is issued is free from material misstatement. Hence issuing an EOM on such a crucial matter is not in accordance with the requirements of Para 6 of SA 706.

- c. Therefore, NFRA concludes that the Audit Firm has:
- i) Not exercised due diligence and has been grossly negligent in the conduct of their professional duties.
 - ii) Not carried out the audit according to Standards on Auditing.
 - iii) Not maintained professional skepticism, professional competence and due care and other ethical requirements during the audit, and
 - iv) Not ensured compliance with the provisions of the Companies Act, 2013.

10.4 In communication dated 14th June 2021 the Audit Firm has submitted its response to the DAQRR dt. 30th March 2021 issued by NFRA, as follows:

“ET followed the audit procedures as stated in the reply to NFRA’s prima-facie comments dated 28th Nov 2020. ET raised observation on this matter, and it is itself evidence that ET had examined the records of the company and had knowledge on the subject matter. ET had documented observation at final stage when he discussed the matter with CFO to finalize the audit report. However, the matter was already discussed with concerned staff and concerned officers of the company time to time. Further ET had also got Management Representation letter on this matter.

ET had verified the company’s documents and then reached on the conclusion to give the EOM on this important matter.”

10.5 The Audit Firm’s responses dated 14th June 2021, to the NFRA DAQRR observations, have been examined and NFRA’s observations thereon are as follows:

- a. NFRA notes that the Audit Firm has failed to provide any WP references or any other audit evidence from the audit file to support its submissions. Hence, these responses are without any basis and are an afterthought only. Without prejudice to this, NFRA has perused the Audit Firm’s response on its merit, if any.
- b. The submissions made by the Audit Firm in [Para 10.4](#) above are the very same contentions made by them in their response to PFC and these have been examined in great detail by NFRA while framing its DAQRR observations in [Para 10.3](#). For the

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sake of brevity, NFRA has not reproduced its response and has only provided reference to specific part of [Para 10.3](#).

- c. The Audit Firm's contentions "*ET had documented observation at final stage when he discussed the matter with CFO to finalize the audit report. However, the matter was already discussed with concerned staff and concerned officers of the company time to time*" are completely baseless and not acceptable because of the reasons stated in [Para 10.3 a\) above](#).
- d. ET has merely relied up on the Management Representation Letter which was reiterating the same facts as reproduced in Note No. 46 of the Standalone Financial Statements, for providing EOM Para. Hence, ET has failed to obtain Sufficient Appropriate Audit Evidence, as required by Para 6 of SA 706. Further, providing EOM Para on such an important financial statement item without obtaining Sufficient Appropriate Audit Evidence is not in accordance with SA 706.

10.6 Therefore, NFRA concludes that the Audit Firm has:

- a. Not exercised due diligence, and has been grossly negligent in the conduct of its professional duties;
- b. Not carried out the audit according to the applicable Standards on Auditing;
- c. Not maintained professional skepticism, professional competence, due care and other ethical requirements during the audit, and
- d. Not ensured compliance with the provisions of the Companies Act, 2013.

11. SUMMARY ON EOM PARAGRAPHS

11.1 Based on response of the Audit Firm to the NFRA's questionnaire dated 30th September 2019, NFRA had conveyed the following prima facie conclusions on 30th September 2020:

- a) Para 4 of SA 706 states that the objective of the auditor, having formed an opinion on the financial statements, is to draw users' attention, when in the auditor's judgment it is necessary to do so, by way of clear additional communication in the auditor's report, to:
 - i) A matter, although appropriately presented or disclosed in the financial statements, that is of such importance that it is fundamental to the users' understanding of the financial statements; or
 - ii) As appropriate, any other matter that is relevant to the users' understanding of the audit, auditor's responsibilities or the auditor's report
- b) Para 5(a) of SA 706 defines Emphasis of Matter Paragraph as a paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements.
- c) Para 6 of SA 706 states that the auditor shall include an Emphasis of Matter paragraph when he has obtained sufficient appropriate audit evidence that the matter is not materially misstated in the financial statements.
- d) On combined reading of Para 5(a) and Para 6 of SA 706, the financial statement item on which an EOM can be issued must satisfy the following conditions:
 - I. The matter has to be appropriately presented or disclosed in the financial statements and
 - II. The auditor should have obtained sufficient appropriate audit evidence that the matter is not materially misstated in the financial statements.
- e) Para A2 of SA 706 states that a widespread use of Emphasis of Matter Paragraphs diminishes the effectiveness of the auditor's communication of such matters.
- f) Para A3 of SA 706 states that an Emphasis of Matter Paragraph is not a substitute for either:
 - I. The auditor expressing a qualified opinion or an adverse opinion, or disclaiming an opinion, when required by circumstances of specific audit engagement; or
 - II. Disclosures in the financial statements that the applicable financial reporting framework requires management to make.

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- g) The Audit Firm had provided eight EOM Paragraphs in the Independent Auditors' Report of the standalone financial statements of JAL. NFRA had identified serious deficiencies in the audit procedures applied by ET:
- I. To obtain sufficient appropriate audit evidence
 - II. To ensure that the matters on which EOM has to be issued are free from material misstatements.
 - III. That the matter is appropriately presented and disclosed in the financial statements.
- h) It is pertinent to note that the company has reported a profit before tax of Rs. 351.71 crores because of interest reversals due to restructuring of debt amounting to Rs. 1,176.59 crores. Without the benefit of the interest reversals the loss would have been Rs. 824.88 crores. Without obtaining sufficient appropriate audit evidence, Audit Firm has gone ahead with issuing an EOM on such a crucial matter.
- i) It is clearly evident that the impact of various matters, on which EOMs are issued is both material and pervasive. The Audit Firm should have therefore, expressed an 'Adverse opinion' on the financial statements as a whole instead of issuing EOM Paragraphs. Further, on combined reading of Para A2 and A3 of SA 706, one can clearly say that widespread use of EOM is not permitted as it diminishes the effectiveness of the auditor's communication on such matters and also that EOM is not a substitute for qualified, adverse or disclaimer of an opinion. The Audit Firm has hence, failed to conduct the audit in accordance with provisions of Section 143(10) of the Companies Act, 2013.

11.2 The Audit Firm in its reply to NFRA's prima-facie comments dated 28th Nov 2020, has quoted Para 5(a), Para 6 of SA 706 and Para 5 of SA 705 and stated that *"while the audit firm understands the importance of Para A2 of SA 706 which states that widespread use of emphasis of matter paragraphs diminishes the effectiveness of auditor's communication of such matters, the standard does not provide any guidance to define the quantum of "widespread use" and has left that to the judgement of the auditor. We have applied our judgement owing to significance of all the matters which are cross referenced to notes to financial statements, for which emphasis of matter is provided. Audit firm in its judgement has not used "Emphasis of matter" paragraph where an adverse, modified or disclaimer of opinion was required to be provided. We understand that all the matters on which Emphasis of matter is issued in accordance with SA 706, are significant by virtue of materiality of the numbers involved or uncertainty around the number presented in financial statements due to litigations etc. None of the matters stated in EOM Issue of this document is considered pervasive. SA 705 has given due importance to auditor's judgement in defining the pervasive attribute of financial or non-*

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financial matter. As per our detailed response in Issue EOM on debt realignment Plan of this document, it is clearly mentioned that while executing the MRA in FY 2018, which is later than the cutoff date (30 Sep 2016) of execution of the stated MRA, higher interest charged for the period starting 1 April 2016 till the execution of the agreement (till when higher rate of interest was charged), the excess interest over and above 9.5% was reversed. This constituted the reversal of previous years since the effect was taken starting from 1 April 2016 as mentioned in the MRA. Hence, the reversal of interest is in line with MRA issued for debt restructure. There is no overstatement of profits by the virtue of interest reversal of Rs. 1,176.59 crores. In our judgement, none of these matters stated in EOM Issue qualify for pervasiveness of the impact to financial statements since all the matters in aggregate also does not represent a substantial portion of financial statement or is not widespread to all the accounts forming part of the financial statements.”

11.3 NFRA had examined the above contentions of the Audit Firm, received in response to the above noted NFRA’s PFC, and had concluded as follows in its DAQRR dated 30th March 2021:

- a. NFRA would like to highlight that it is pertinent to note that the purpose of issuing an EOM in the Independent Auditors’ Report is to draw users’ attention to a matter or matters presented or disclosed in the financial statements that are of such importance that they are fundamental to users’ understanding of the financial statements. That means, EOMs help the users to understand the financial statements in a better manner and if eight EOMs are to be issued to make the users understand the financial statements then it definitely is a “widespread use” of EOMs. Notwithstanding the above, it is also important to note that the company had reported a profit before tax of Rs. 351.71 crores because of interest reversals due to restructuring of debt amounting to Rs. 1,176.59 crores. Without the benefit of the interest reversals the loss would have been Rs. 824.88 crores. Without obtaining sufficient appropriate audit evidence, Audit Firm had gone ahead with issuing an EOM on such a crucial matter. It was clearly evident that the impact of various matters, on which EOMs were issued was both material and pervasive. The Audit Firm should have expressed an ‘Adverse opinion’ on the financial statements as a whole instead of issuing EOM Paragraphs. Para 8(c) of SA 230 states that the auditor shall prepare audit documentation that is sufficient to enable an experience auditor, having no previous connection with the audit, to understand significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions. Further Para A9 of SA 230 states that documentation of the professional judgments made, where significant, serves to explain the auditor’s conclusions and to reinforce the quality of

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the judgment. On a plain reading of these requirements of SA 230, one can clearly conclude that the significant judgments made in the audit shall be documented by the auditor. The contentions made by the Audit Firm in above are completely unacceptable as these are nowhere documented, and no WP references were provided by the Audit Firm in support of these contentions. For our detailed comments on the Audit Firm's response made above, please refer to EOM on DRP of this DAQRR.

- b. Therefore, NFRA concludes that the Audit Firm has:
- i) Not exercised due diligence and has been grossly negligent in the conduct of their professional duties.
 - ii) Not carried out the audit according to Standards on Auditing.
 - iii) Not maintained professional skepticism, professional competence and due care and other ethical requirements during the audit, and
 - iv) Not ensured compliance with the provisions of the Companies Act, 2013.

11.4 In communication dated 14th June 2021 the Audit Firm has submitted its response to the DAQRR dt. 30th March 2021 issued by NFRA, as follows:

“As stated in the reply to NFRA’s prima-facie comments dated 28th Nov 2020 all the matters on which Emphasis of matter is issued, such matters has been appropriately presented or disclosed in the financial statements.

While the audit firm understands the importance of Para A2 of SA 706 which states that widespread use of emphasis of matter paragraphs diminishes the effectiveness of auditor’s communication of such matters, the standard does not provide any guidance to define the quantum of “widespread use” and has left that to the judgement of the auditor. We have applied our judgement owing to significance of all the matters which are cross referenced to notes to financial statements, for which emphasis of matter is provided.

There is no overstatement of profits by the virtue of interest reversal of Rs. 1,176.59 crores as explained in response to NFRA’s prima-facie comments dated 28th Nov 2020.”

ET reached on the conclusion to give the EOM’s on the important matters.”

11.5 The Audit Firm’s responses dated 14th June 2021, to the NFRA DAQRR observations have been examined and NFRA’s observations thereon are as follows:

- a. NFRA notes that the Audit Firm has failed to provide any WP references or any other audit evidence from the audit file to support its submissions. Hence, these responses are without any basis and are an afterthought only. Without prejudice to this, NFRA has perused the Audit Firm’s response on its merit, if any.
- b. The submissions made by the Audit Firm in [Para 11.4](#) above are the very same contentions made by them in their response to the PFC and these have been examined in great detail by NFRA while framing its DAQRR observations in [Para 11.3](#). For the

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sake of brevity, NFRA has not reproduced its response and has only provided reference to specific part of [Para 11.3](#).

- c. The Audit Firm's contentions "*While the audit firm understands the importance of Para A2 of SA 706 which states that widespread use of emphasis of matter paragraphs diminishes the effectiveness of auditor's communication of such matters, the standard does not provide any guidance to define the quantum of "widespread use" and has left that to the judgement of the auditor. We have applied our judgement owing to significance of all the matters which are cross referenced to notes to financial statements, for which emphasis of matter is provided*" are not acceptable because of the reasons stated in [Para 11.3 a\) above](#).
- d. Hence, the Audit Firm compromised with the effectiveness of the auditor's report by widespread use of Emphasis of Matter (EOM) Paragraphs. The Audit Firm has provided eight EOMs in the financial statements of FY 2017-18. Para A3 of SA 706 states that widespread use of Emphasis of Matter Paragraphs diminishes the effectiveness of the auditor's communication of such matters. Further, the Audit Firm failed to obtain sufficient appropriate audit evidence that was required as per SA 706 for providing these EOMs.

11.6 Therefore, NFRA concludes that the Audit Firm has:

- a. Not carried out the audit according to the applicable Standards on Auditing.
- b. Not maintained professional skepticism, professional competence, due care and other ethical requirements during the audit, and
- c. Not exercised due diligence and has been grossly negligent in the conduct of its professional duties.
- d. Not ensured compliance with the provisions of the Companies Act, 2013.

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12. AUDITOR'S OPINION ON INTERNAL FINANCIAL CONTROLS RELATED TO FINANCIAL STATEMENTS (ICFR) (UNDER CLAUSE (I) OF SUB-SECTION 3 OF SECTION 143 OF THE COMPANIES ACT, 2013)

12.1 Based on response of the Audit Firm to the NFRA's questionnaire dated 30th September 2019, NFRA had conveyed the following prima facie conclusions on 30th September 2020:

- a) NFRA had examined the working paper "*File A 3.4(a) Pg. No.298-304,315, 321-322, A 3.1 Pg. No. 95-103 & K 10.4-10.8*" in detail and noted that the Audit Firm had documented a '*List of Questions for Evaluating Internal Financial Controls and Pre-Audit WPs*' which contained ET's tests of control carried out with respect to their testing of : (a) Purchases and Creditors, (b) Stock, (c) Fixed Assets and (d) Sales and Debtors. The referred WP was merely a checklist which had a column for questions on the identified significant accounts and a separate column which provided answers in 'Yes/No/NA' without any explanation for the same.
- b) There was no documentation found in the Audit File to show the audit planning process followed by the Audit Firm on the basis of which significant account balances / disclosure items and relevant assertions that may carry potential of a misstatement had been identified. Further, there was no evidence of the work done by the auditor to determine the flow of transactions relevant to these assertions, to show the initiation, authorization, process and recording of these transactions. The IT processes which were relevant to the flow of transactions had not been identified by the Audit Firm, for testing the operating effectiveness of IT controls.
- c) The Audit Firm had documented the Risk Management Policy of the company (i.e. JAL). This Policy was prepared by the management, which contained the risks pertaining to Strategy, business and operations of the company and the company's strategies to mitigate such risks. Further, there was no documentation of any work done by ET to arrive at a conclusion that such controls were operating effectively and also there was no documentation of the discussions made by the ET with the departmental heads of the company. The Audit Firm, in the case of evaluating and testing the operating effectiveness of internal financial controls over financial reporting of JAL, had merely documented a checklist with a series of questions and their responses in 'Yes/No/NA', without actually performing any walkthroughs of the transactions in order to ensure whether controls were operating effectively as required by Para 100 and Para 103 of the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting.

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- d) NFRA having examined the WP, ‘*File A 3.4(a) Pg. No.298-304,315, 321-322, A 3.1 Pg. No. 95-103 & K 10.4-10.8*’ concluded that controls over management override did not form part of the evaluation of internal financial controls over financial reporting.
- e) There was no documentation of management representation letter on the adequacy and operating effectiveness of the internal financial controls over financial reporting. Since in the present case, Audit Firm had not obtained management representations, the same shall be treated as a limitation on the scope of the audit, which should have resulted in either disclaimer of the opinion or resignation of the auditor.
- f) The Audit Firm had issued modified opinion (qualified opinion) on the financial statements of JAL and an unmodified opinion on the company’s internal financial controls over financial statements. This reporting of the Audit Firm was completely in contravention of what is stated in the Implementation Guide on SA 700, SA 705 and SA 706 (Question 21). In the present case the Audit Firm should have modified their opinion on the internal financial controls over financial reporting.
- g) The WP, ‘*File A 3.4(a) Pg. No.298-304,315, 321-322, A 3.1 Pg. No. 95-103 & K 10.4-10.8*’ did not provide any basis of the auditor’s report nor did it provide any evidence that the audit was planned and performed in accordance with the Guidance Note and applicable SAs. Hence, the Audit Firm was grossly negligent and had failed to exercise due diligence to comply with the requirements of Para 41 and 165 of the Guidance Note on Audit of Internal Financial Controls over Financial Reporting.

12.2 The Audit Firm has quoted Para 4(c) of SA 315, Para A1 of SA 200 and Para 31 of Guidance Note on Audit of Internal Financial Controls over Financial Reporting. The Audit Firm has also stated that, “*Audit firm has obtained sufficient understanding of each control and the related risks which that control addressed through RCMs (Risk Control Matrices) on the basis of which conclusion was given regarding the effectiveness of their design to address the risks. Further, we have also done inquiries with management and employees responsible for exercising those controls along with the walkthroughs of all the entity's processes related to significant accounts and disclosures assessed by the ET, based on materiality of the financial statement. ET further performed tests of controls in respect of controls related to various processes of the company. Some document please Refer G8.38 pg 34-35, F8.19 pg 39-41, 47-49, F8.10 pg 66-73, D8.04 Pg 181 to 198.*”

12.3 NFRA had examined the above contentions of the Audit Firm, received in response to the above noted NFRA’s PFC, and had concluded as follows in its DAQRR dated 30th March 2021:

- a. NFRA has examined the referred WPs in detail and reiterates its observations made in *PFC that:*

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WP Referred	NFRA's Observations
G8.38 pg 34-35	The WP contains a copy of JV dated 24.04.2018 of Amelia Coal Block. This is a system generated printout of the JV. There is no documentation of the audit procedures applied and the conclusions reached after performing the audit procedures, if any by the ET. From this WP, one cannot draw any conclusions as to what type of controls were tested by the ET and how they have arrived at the operating effectiveness of those controls, if any.
F8.19 pg 39-41, 47-49	The WP contains a copy of Tax invoice dated 08.02.18 raised by M/s Regent Printers on JAL, Site Debit Advice of ARUN-3 HE Project, Nepal. The document is not even signed by the company officials. There is no documentation of the audit procedures applied and the conclusions reached after performing the audit procedures, if any by the ET. From this WP, one cannot draw any conclusions as to what type of controls were tested by the ET and how they have arrived at the operating effectiveness of those controls, if any.
F8.10 pg 66-73	This WP contains copies of Tax Invoice raised on M/s UTCL by JAL on 11.09.2017, 11.10.2017, 28.12.2017 and 18.01.2018 towards down payments against composite works contract agreement. There is no documentation of the audit procedures applied and the conclusions reached after performing the audit procedures, if any by the ET. From this WP, one cannot draw any conclusions

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	as to what type of controls were tested by the ET and how they have arrived at the operating effectiveness of those controls, if any.
D8.04 Pg 181 to 198	The WP contains Trial Balance, Bank guarantees, statement of contract receipt prepared by the company of Kevadia Project. There is no documentation of the audit procedures applied and the conclusions reached after performing the audit procedures, if any by the ET. From this WP, one cannot draw any conclusions as to what type of controls were tested by the ET and how they have arrived at the operating effectiveness of those controls, if any.

b. Further, the Audit Firm has not submitted any of its objections made by NFRA in its PFC and hence, all the observations of NFRA made in its PFC stands proved. NFRA has observed that:

- i) In WPs “*File A 3.4(a) Pg. No.298-304,315, 321-322, A 3.1 Pg. No. 95-103 & K 10.4-10.8*” the Audit Firm had documented a ‘*List of Questions for Evaluating Internal Financial Controls and Pre-Audit WPs*’ which contained ET’s tests of control carried out with respect to their testing of: (a) Purchases and Creditors, (b) Stock, (c) Fixed Assets and (d) Sales and Debtors. The referred WPs were merely checklists which had a column for questions on the identified significant accounts and a separate column which provided answers in ‘Yes/No/NA’ without any explanation for the same.
- ii) There was no documentation found in the Audit File to show the audit planning process followed by the Audit Firm on the basis of which significant account balances / disclosure items and relevant assertions that may carry potential of a misstatement had been identified. Further, there was no evidence of the work done by the auditor to determine the flow of transactions relevant to these assertions, to show the initiation, authorization, process and recording of these transactions. The IT processes which were relevant to the flow of transactions had not been identified by the Audit Firm, for testing the operating effectiveness of IT controls.

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- iii) The Audit Firm had documented the Risk Management Policy of the company (i.e. JAL). This Policy was prepared by the management, which contained the risks pertaining to Strategy, business and operations of the company and the company's strategies to mitigate such risks. Further, there was no documentation of any work done by ET to arrive at a conclusion that such controls were operating effectively and also there was no documentation of the discussions made by the ET with the departmental heads of the company. The Audit Firm, in the case of evaluating and testing the operating effectiveness of internal financial controls over financial reporting of JAL, had merely documented a checklist with a series of questions and their responses in 'Yes/No/NA', without actually performing any walkthroughs of the transactions in order to ensure whether controls were operating effectively as required by Para 100 and Para 103 of the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting.
- iv) The Audit Firm's testing of controls over management override did not form part of the evaluation of internal financial controls over financial reporting.
- v) There was no documentation of management representation letter on the adequacy and operating effectiveness of the internal financial controls over financial reporting. **As per Para 151 of the Guidance Note on Internal Financial Controls Over Financial Reporting, inability to obtain written representations from the management, including management's refusal to furnish them, constitutes a limitation on the scope of the audit. When the scope of the audit is limited, the auditor should either disclaim the audit opinion or resign from the engagement. In the present case, the Audit Firm's inability to obtain management representations letter shall be treated as a limitation on the scope of the audit and this should have resulted in either disclaimer of the opinion or resignation of the auditor.**
- vi) The Audit Firm had issued modified opinion (qualified opinion) on the financial statements of JAL and an unmodified opinion on the company's internal financial controls over financial statements. This reporting of the Audit Firm was completely in contravention of what is stated in the Implementation Guide on SA 700, SA 705 and SA 706 (Question 21). In the present case the Audit Firm should have modified their opinion on the internal financial controls over financial reporting.
- vii) The WP, 'File A 3.4(a) Pg. No.298-304,315, 321-322, A 3.1 Pg. No. 95-103 & K 10.4-10.8' did not provide any basis of the auditor's report nor did it provide

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any evidence that the audit was planned and performed in accordance with the Guidance Note and applicable SAs. Hence, the Audit Firm was grossly negligent and had failed to exercise due diligence to comply with the requirements of Para 41 and 165 of the Guidance Note on Audit of Internal Financial Controls over Financial Reporting.

- c. Therefore, NFRA concludes that the Audit Firm has:
- i) Not disclosed complete information to users of financial statements as required under relevant financial reporting framework;
 - ii) Failed to obtain sufficient information which is necessary for expression of an opinion on internal financial control;
 - iii) Not carried out the audit according to Guidance Note on Audit of Internal Financial Control over Financial Reporting and Standards on Auditing;
 - iv) Not maintained professional skepticism, professional competence and due care and other ethical requirements during the audit, and
 - v) Not ensured compliance with the provisions of the Companies Act, 2013.

12.4 In communication dated 14th June 2021 the Audit Firm has submitted its response to the DAQRR dt. 30th March 2021 issued by NFRA, as follows:

“As stated in the reply to NFRA’s prima-facie comments dated 28th Nov 2020 ET followed the audit procedures as stated in that reply. ET has obtained SOP’s of Company (Submitted to NFRA) and sufficient understanding of each control and the related risks which that control addressed through RCMs (Risk Control Matrices) on the basis of which conclusion was given regarding the effectiveness of their design to address the risks. Further, ET have also done inquiries with management and employees responsible for exercising those controls along with the walkthroughs of all the entity’s processes related to significant accounts and disclosures assessed by the ET, based on materiality of the financial statement. ET further performed tests of controls in respect of controls related to various processes of the company. ET prepared a check list on internal financial control and filled the same on the basis of their observation and documented the same as Audit document. However, documents regarding walkthrough had not been kept in that form as NFRA observed.

ET has performed audit of Internal Financial Controls Related to Financial Statements.”

12.5 The Audit Firm’s responses dated 14th June 2021, to the NFRA DAQRR observations, have been examined and NFRA’s observations thereon are as follows:

- a. NFRA notes that the Audit Firm has failed to provide any WP references or any other audit evidence from the audit file to support its submissions. Hence, these responses are without any basis and are an afterthought only. Without prejudice to this, NFRA has perused the Audit Firm’s response on its merit, if any.
- b. The submissions made by the Audit Firm in [Para 12.4](#) above are the very same contentions made by them in their response to PFC and these have been examined in

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great detail by NFRA while framing its DAQRR observations in [Para 12.3](#). For the sake of brevity, NFRA has not reproduced its response and has only provided reference to specific part of [Para 12.3](#).

- c. The Audit Firm's contentions "*ET has obtained SOP's of Company (Submitted to NFRA) and sufficient understanding of each control and the related risks which that control addressed through RCMs (Risk Control Matrices) on the basis of which conclusion was given regarding the effectiveness of their design to address the risks. Further, ET have also done inquiries with management and employees responsible for exercising those controls along with the walkthroughs of all the entity's processes related to significant accounts and disclosures assessed by the ET, based on materiality of the financial statement. ET further performed tests of controls in respect of controls related to various processes of the company. ET prepared a check list on internal financial control and filled the same on the basis of their observation and documented the same as Audit document.*" are not acceptable because of the reasons stated in [Para 12.3 b\) above](#).

12.6 Therefore, NFRA concludes that the Audit Firm has:

- a. Not disclosed complete information to users of financial statements as required under relevant financial reporting framework;
- b. Failed to obtain sufficient information which is necessary for expression of an opinion on internal financial control;
- c. Not carried out the audit according to Guidance Note on Audit of Internal Financial Control over Financial Reporting and Standards on Auditing;
- d. Not maintained professional skepticism, professional competence, due care and other ethical requirements during the audit, and
- e. Not ensured compliance with the provisions of the Companies Act, 2013.

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13. INVESTMENTS

13.1 Based on the response of the Audit Firm to the NFRA's questionnaire dated 30th September 2019, NFRA had conveyed the following prima facie conclusions on 30th September 2020:

Bhilai Jaypee Cement Limited (BJCL)

- a) NFRA observed that the operating losses of BJCL for the FY 2017-18 were Rs. 57.94 Cr before tax as against Rs. 42.48 Cr for the FY 2016-17. These facts provided a clear indication of impairment as mentioned in Para 12(g) of Ind AS 36. Further, the workings provided by the management were based on the premise of Enterprise value agreed between JAL and OCL. However, 11 days after signing off of the Audit Report, the agreement was cancelled by OCL as the long stop date had expired. The workings provided by the management to derive the recoverable amount, is not in accordance with the requirements of Para 18 of Ind AS 36.
- b) The Audit Firm has failed to:
 - i. Verify the agreement to sell JAL's equity stakes to OCL to cross verify the amount of Enterprise Value as taken by the management for arriving at the fair value of the entity.
 - ii. Question the management regarding the company's workings to arrive at the recoverable amount in the case of company's investments made in BJCL.
 - iii. Ask the management to compute the recoverable amount to assess whether there is any impairment of investments in BJCL in accordance with the requirements of Ind AS 36, and
 - iv. Communicate significant deficiencies in valuation of investments made in BJCL to TCWG in accordance with the requirements of Para 16 of SA 260.
- c) Hence, the Audit Firm has failed to exercise professional skepticism and question the management's valuation of investments in BJCL. The Audit Firm completely failed to discharge its duty of due diligence and in obtaining sufficient appropriate audit evidence regarding valuation of investments in BJCL, and simply went by the Management's representation.

Himalaya Expressway Limited (HEL)

- a) The company has prepared projected cash flows for arriving at value in use in an indirect method as per Ind AS 7. This treatment by the entity is completely against the requirements of Para 30 and 39 of Ind AS 36. Because Para 30 and 39 of Ind AS 36 requires an entity to project cash inflows and cash outflows on continuing use of the asset or CGU in a direct manner, hence, the workings provided by the management to

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derive recoverable amount, is not in accordance with the requirements of Para 18 of Ind AS 36.

- b) ET's evaluation of the assumptions used by the entity and their conclusions as to whether the assumptions used are reasonable is not documented in the Audit File, as required by Para 23 of SA 540. This clearly indicates gross negligence on the part of ET while conducting their professional duties.
- c) NFRA is therefore justified in concluding that the Audit Firm failed to exercise professional skepticism and question the management's valuation of investments in HEL. The Audit Firm completely failed to discharge its duty of due diligence and in obtaining sufficient appropriate audit evidence regarding valuation of investments in HEL and simply went by the Management's representation.

Jaypee Cement Corporation Limited (JCCL)

- a) The company's methodology of comparing the net asset's value together with the valuation of mineable reserves and the carrying amount of the investments made in JCCL is completely against the requirements of Para 9, 12 and 18 of Ind AS 36. There is no documentation of computation of Value in Use, if any, made by the company. This clearly indicates gross negligence on the part of ET while conducting their professional duties. Hence, the workings provided by the management to derive recoverable amount, is not in accordance with the requirements of Para 18 of Ind AS 36.
- b) The Audit Firm has failed to:
 - i. Question the management regarding the company's workings to arrive at the recoverable amount in the case of company's investments made in JCCL, which is against their own accounting policy as provided in Note 1 to the Standalone Financial Statements;
 - ii. Ask the management to compute the recoverable amount to assess whether there is any impairment of investments in JCCL in accordance with the requirements of Ind AS 36, and
 - iii. Communicate significant deficiencies in valuation of investments made in JCCL to TCWG in accordance with the requirements of Para 16 of SA 260.
- c) As per the Annual Report for the FY 2017-18, the amount of preference shares as at the beginning of the year (01.04.2017) was Rs. 681.51 cr. and as at the end of the year (31.03.2018) was Rs. 715. 16 cr. However, as per WP A 3.4(a&b) Pg. No. 26, the amount of preference shares as at the beginning of the year (01.04.2017) was documented as Rs. 3,100 cr and as at the end of the year (31.03.2018) it was documented as Rs. 715.16 cr. There is no explanation provided in the WPs for this

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mismatch between WPs and the Annual Report. Further the valuation report of Shahabad Plant which is dated 10.03.2016, is used as a basis for arriving at the Fair Value of the plant and the ET has not even questioned the management regarding this matter. There is no basis provided by the management for taking the book value of the other plants as the fair value.

- d) NFRA is therefore justified in concluding that the Audit Firm failed to exercise professional skepticism and question the management's valuation of investments in JCCL. The Audit Firm completely failed to discharge its duty of due diligence and in obtaining sufficient appropriate audit evidence regarding valuation of investments in JCCL and simply went by Management's representation.

Jaypee Infratech Limited (JIL)

- a) Para 12(d) of Ind AS 36 lists the carrying amount of the net assets of the entity being more than its market capitalization, as one such indication. NFRA observed that the market capitalization of the company was Rs. 1,166.68 Cr. (138.89 Cr shares of Rs. 8.40/- each as on 31.03.2018) while the carrying value of net assets of JIL as on reporting date is Rs. 3,312.21 Cr. The company incurred a loss of Rs. 1,818.37 Cr. in the FY 2017-18. These facts provided a clear indication of impairment as mentioned in Para 12(d) of Ind AS 36. As on the date of signing off of the Audit Report (i.e. May 19, 2018), the market capitalization of the company was only Rs. 830.56 crores (138.89 Cr shares of Rs. 5.98/- each as on 19.05.2018) while the carrying value of the net assets of JIL remained at Rs. 3,312.21 Cr., clearly indicating existence of impairment. The workings provided by the management to derive the recoverable amount, is not in accordance with the requirements of Para 18 of Ind AS 36.
- b) Para 59 of Ind AS 36 states that if and only if the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. This clearly shows that impairment loss should have been recognized according to Para 59 of Ind AS 36. Since impairment loss is not recognized, profit is inflated by at least 137.78 Cr. for the FY 2017-18 [84.70*(10.03-8.40)].
- c) The Audit Firm has failed to:
- i. Question the management regarding the company's workings to arrive at the recoverable amount in the case of company's investments made in JIL, which is against their own accounting policy as provided in Note 1 to the Standalone Financial Statements;
 - ii. Ask the management to compute the recoverable amount to assess whether there is any impairment of investments in JIL in accordance with the requirements of Ind AS 36, and

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- iii. Communicate significant deficiencies in valuation of investments made in JIL to TCWG in accordance with the requirements of Para 16 of SA 260.
- d) NFRA is therefore justified in concluding that the Audit Firm failed to exercise professional skepticism and question the management's valuation of investments in JIL. The Audit Firm completely failed to discharge its duty of due diligence and in obtaining sufficient appropriate audit evidence regarding valuation of investments in JIL and simply went by Management's representation.

Jaiprakash Power Ventures Limited (JPVL)

- a) Para 12(d) of Ind AS 36 lists the carrying amount of the net assets of the entity being more than its market capitalization, as one such indication. NFRA observes that the market capitalization of the company was Rs. 2,848.10 Cr. (599.60 Cr shares of Rs. 4.75/- each as on 31.03.2018) while the carrying value of net assets of JPVL as on reporting date is Rs. 9,365.46 Cr. From WP A 3.4 (a&b) Pg. No. 39, NFRA notes that the company incurred a loss before tax of Rs. 618.70 Cr. in the FY 2017-18 as against a loss before tax of Rs. 1,224.18 Cr in the FY 2016-17. These facts provide a clear indication of impairment as mentioned in Para 12(d) of Ind AS 36. The workings provided by the management to derive recoverable amount, is not in accordance with the requirements of Para 9 and Para 18 of Ind AS 36. **Since impairment loss is not recognized, profit of the company is inflated by at least 895.69 Cr. for the FY 2017-18 [178.30 cr shares * (10.00 - 4.75)].**
- b) The Company has provided ET with Projected Cash Flows, P&L, Balance Sheet for the year 2019-2035. The assumptions used for such projections were not forming part of the Audit file. Further, Projected cash flows for computing value in use, was prepared in accordance with Ind AS 7, which is contrary to the requirements of Para 30 and 39 of Ind AS 36. It is to be noted that the asset in question is equity shares, and hence, value in use in the present case shall be Nil, as the company is incurring huge losses and hence there is no question of declaring dividends in near future. Fair value less cost of disposal should have been considered for calculating recoverable amount.
- c) The Audit Firm has failed to:
 - i. Question the management regarding the company's workings to arrive at the recoverable amount in the case of company's investments made in JIL, which is against their own accounting policy as provided in Note 1 to the Standalone Financial Statements;
 - ii. Ask the management to compute the recoverable amount to assess whether there is any impairment of investments in JIL in accordance with the requirements of Ind AS 36, and

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- iii. Communicate significant deficiencies in valuation of investments made in JIL to TCWG in accordance with the requirements of Para 16 of SA 260.
- d) NFRA is therefore justified in concluding that the Audit Firm failed to exercise professional skepticism and question the management's valuation of investments in JPVL. The Audit Firm completely failed to discharge its duty of due diligence and in obtaining sufficient appropriate audit evidence regarding valuation of investments in JPVL and simply went by Management's representation.

Prayagraj Power Generation Company Limited (PPGCL)

- a) In the case of investments made in PPGCL, after invocation of pledged shares of JPVL, the company (JAL) merely holds 11.49% of the voting power. From Para 5 of Ind AS 28, it can be clearly established that accounting for investments made in PPGCL is not in accordance with requirements of Ind AS 28, because the entity (i.e. JAL) holds less than 20 percent of the voting power of PPGCL. The company should have instead accounted for its investments made in PPGCL at *Fair Value* in accordance with Ind AS 109.
- b) Given the fact as noted by ET in WP A 3.4(a&b) Pg. No. 49, "Consequent to invocation of pledged shares, PPGCL ceased to be subsidiary of JPVL w.e.f 18th December, 2017. Lenders have since commenced the process for sale of shares/change on management of PPGCL by inviting expression of interest/definitive bids from prospective bidders," it is clearly evident that JAL is not holding any significant influence over PPGCL and also in view of the fact that PPGCL is unable to service its interest obligations to the lenders from February 2017 onwards, JAL should have clearly written down the value of investments to NIL as the fair value of such investments would have drastically reduced.
- c) Since JAL continued to show the investments made in PPGCL as Investments in Associate Companies, the company has violated the requirements of Ind AS 28, Ind AS 109 and also Ind AS 110, as JAL has consolidated the financials of PPGCL. Further, this resulted in the overstatement of the profits of JAL by at least Rs. 340 crores, as the company continued to account for its investments in PPGCL at *cost* instead of accounting them at *Fair Value*. This clearly indicates gross negligence on the part of ET while conducting their professional duties which has resulted in failure to correct the material misstatements and failure to report on such material misstatements.
- d) The accounting treatment adopted by the company is in violation of the requirements of Ind AS 27, Ind AS 28 and Ind AS 109. ET should have modified their opinion in this matter as the amount involved is material.

Other Issues:

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a) In the WP A 3.4(a&b) Pg. No. 51, ET has documented a table as follows:

Sr. No.		Impairment in Investments	Impairment in Receivables	Total
1.	MP JP Minerals Ltd	-	26,55,072	26,55,072
2.	MP JP Coal Ltd.	-	1,91,57,014	1,91,57,014
3.	MP JP Coad Field Ltd	(62,603)	-	(62,603)
4.	Jaypee Agra Vikas Ltd	3,65,49,594	-	3,65,49,594
5.	Jaypee Assam Cement Ltd	-	8,99,023	8,99,023
6.	Jaypee Cement (Hockey) India Ltd	-	2,80,21,134	2,80,21,134
7.	Jaypee Infrastructure Development Ltd	-	18,746	18,746
8.	Yamuna Expressway Tolling Ltd.	5,00,000	27,88,320	32,88,320
9.	Gujrat Jaypee Cement & Infrastructure Ltd	22,58,652	-	22,58,652
10.	RPJ Minerals Ltd	(3,20,41,778)	-	(3,20,41,778)
11.	Sonebhadra Minerals P. Ltd.	48,093	1,06,305	1,54,398
Total		72,51,958	5,36,45,614	6,08,97,572

The above WP contains the list of various companies and the amount of impairment in investments and receivables. The basis for arriving at the impairment figures is not provided in the WP. The ET's application of audit procedures and their conclusions as to whether the impairment computation is in accordance with the requirements of Ind AS is also not documented in the Audit File. This clearly indicates that ET has relied

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upon the management presented table containing the impairment figures of various subsidiaries and associate companies and not any individual assessment done by the Audit team.

- b) The Company (JAL) has in Note 3 to the standalone financial statements, disclosed aggregate amount of impairment in value of investments as Rs. 543.70 crores. Except the table presented above, there are no WPs documented by the ET, which explains the detailed audit procedures applied by them to verify the appropriateness of the amount of impairment as disclosed by the company in Note 3 to the standalone financial statements and the conclusions reached by them, if any.
- c) As per Para 2.3.1.14(ix) of Master circular – Loans and Advances – Statutory and other restrictions, issued by RBI dated July 1, 2015, in case of default by borrower and the bank exercising the option of invocation of pledge, the shares get transferred in the bank's name immediately. As per Note No. 38 of standalone financial statements, during the FY 2017-18, the details of banks exercising invocation of pledge of shares are as follows:
- i. SBI has invoked pledge of 10 crores equity shares of JIL and sold 3.19 crore equity shares in the open market. Balance shares aggregating 6.81 crore equity shares pending disposal are shown as part of current investments at cost.
 - ii. IndusInd Bank has invoked the pledge of 6 crore equity shares of JIL and had sold 4.80 crore equity shares in the open market. Balance shares aggregating 1.20 crore equity shares pending disposal are shown as part of investments of the company.
 - iii. Yes Bank Limited has invoked the pledge of 11,39,05,440 Equity Shares of Rs. 10-/ each of Bhilai Jaypee Cement Limited. Pending settlement with the Lender against its dues, the Company continued to show the equity shares as part of investments of the Company.

The Company by continuing to account for shares, on which it does not have any ownership rights on the pledged shares of JIL, has overstated its investments and profit by at least Rs. 194.01 crores.

- d) On the basis of sample cases alone and examined by NFRA, the financial statements of JAL for the FY 2017-18 appears to have shown profit which was inflated **by at least Rs. 1,567.48 crores** as summarized below:
- Rs. 137.78 crores in JIL
 - Rs. 895.69 crores in JPVL
 - Rs. 340.00 crores in PPGCL
 - Rs. 194.01 crores in BJCL and JIL

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- e) Therefore, NFRA concludes that the Audit Firm has:
- i. Failed to disclose material facts known to them which are not disclosed in financial statements, but disclosure of which is necessary in making such financial statements where they are concerned with those financial statements in professional capacity.
 - ii. Failed to report a material misstatement known to them to appear in a financial statement with which they are concerned in professional capacity.
 - iii. Not exercised due diligence or are grossly negligent in the conduct of their professional duties.
 - iv. Not carried out the audit according to Standards on Auditing.

13.2 The Audit Firm in its reply to NFRA's prima-facie comments dated 28th Nov 2020, has stated as follows:

1. Bhilai Jaypee Cement Limited (BJCL)

Reply has been given in response to Issue 'Non-current assets classified as Held for Sale

2. Himalaya Expressway Limited (HEL)

The Audit Firm has in its reply dated 28th November, 2020 has referred to Para 30 of Ind AS 36 and stated as "*HEL is completely owned subsidiary of JAL, wherein the intention of the management is to run the business on a long term and not only benefit from its dividend and market share value.*"

3. Jaypee Cement Corporation Limited (JCCL)

The Audit Firm has in its reply dated 28th November, 2020 has referred to Para 12, 18, 19 and 21 of Ind AS 36 and stated as "*In the present case, the fair value has been considered as Rs. 936.54 crores based on an independent external valuer for Shahabad plant and Rs. 3364.33 crores for minable reserves, Total amounting to Rs. 4300.87 Crores which exceeds the carrying amount of Rs. 2,169.87 Crores. (Refer file A3.4 (b) pg 24 to 26).*"

4. Jaypee Infratech Limited (JIL)

The Audit Firm has in its reply dated 28th November, 2020 has referred to Para 12, 19 and 21 of Ind AS 36 and stated as follows:

- i) *In the present case, as per the petition filed by IDBI Bank with Hon'ble NCLT, Allahabad Bench U/s 7 of Insolvency & Bankruptcy Code, 2016 in respect of JIL which was admitted vide Order dated 9th August, 2017 and Interim Resolution Professional (IRP) was appointed to carry the functions as mentioned under the Code. Based on the petition and other facts filed by the*

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creditors in NCLT, it is admitted by the lender that the assets in the company are more than the liabilities. Brief values of which are as follows:

- a. Estimated value of assets of JIL submitted to NCLT dated 09.08.2017:
Rs. 17,116 Cr*
- b. Liabilities as at 31.03.2018:Rs. 15,206.84Cr*
- ii) The assets of JIL exceeds the liabilities by Rs. 1,909 crores which is much more than the value of investments which was Rs. 849.26 crores and also together with all other assets which comprise deposits amounting to Rs. 550 crores and current receivables of 341.75 crores.*
- iii) Further ET also assess the External Indicator of Impairment which indicates that the market price per share as on 31.03.2018 is Rs. 8.40 per share as compare to carrying value of Rs. 10.03 per share. ET considered that fair value as on 31.03.2018 is Rs. 711.48 Crores as compare to carrying value of Rs. 849.26 crores. ET observed that there is diminution in the value of investment of Rs. 137.78 crores which is material. ET asked the management for the reason for not providing this dilution but management replied that the book value is higher than carrying amount. (Refer Memorandum of observation as per point No 15 (refer file no. A3.1 pg 3). Since ET has not convinced with this reply Accordingly ET decide that the matter should be qualified in the Audit report as the amount is material but not pervasive.*

5. Jaiprakash Power Ventures Limited (JPVL)

The Audit Firm has in its reply dated 28th November, 2020 has referred to Para 12, 19 and 21 of Ind AS 36 and stated as *“In the present case, Strategic Debt Restructuring was implemented in JPVL in 2016 whereby loan aggregating to Rs. 3,058 Cr were converted into Equity shares at par on 18.12.2017. This led to reduction of shareholding from 60.69% to 29.74%, the lenders having 51% of its share capital (as on 31.03.2018), and balance remaining with public. At present Deep Restructuring of public debt is under advance stage. This debt would be structured into two parts sustainable and unsustainable which would be converted into long term instrument with negligible cost. Post approval of the plan and implementation thereon the company's profitability and net worth is expected to improve considerably. It could be seen from the projections that the net worth of the company would be about Rs. 13,003 Cr, which is much higher than the value of investments in the books of account at Rs. 1,742.62 crores.”*

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6. Prayagraj Power Generation Company Limited (PPGCL)

The Audit Firm has in its reply dated 28th November, 2020 referred to Para 3 and Para 6 of Ind AS 28 stated as follows:

- (i) PPGCL still continued to be an associate of JAL due to former having significant influence over the latter.*
- (ii) Above significant influence is derived from out of 12 directors on the board of PPGCL, there are 3 below mentioned common directors on the board of PPGCL and JAL, both as at 31 March 2018 as referred below hence evidencing the representation on board of directors per above stated definition. ET have Checked the data from MCA record at the time for finalization of balance sheet of JAL.*
 - a. Sunil Kumar Sharma (DIN no. 00008125)*
 - b. Sunny Gaur (DIN no. 00008293)*
 - c. Manoj Gaur (DIN no. 00008480)*
- (iii) In light of above facts, PPGCL continued to be shown as an associate investment of JAL as at 31 March 2018. As per Ind AS 109, company has exercised an option to keep its associate investment at cost.*
- (iv) ET did an impairment testing of its investment in PPGCL per Ind AS 36, Impairment of assets. Refer file A3.4 (b) pg 49 to 50 in audit files submitted. As stated in PPGCL Impairment testing document Company is having long term PPA for sales of Electricity and Debt restructuring proposal has already been submitted with the lenders. Management assures that debt restructuring in PPGCL will have positive effect. . Company was initially in loss but it will be in profit in near future on the basis of discussion with management.*
- (v) Further ET discussed this matter with CFO of JAL and also documented the same in their Memorandum of observation as per point No 6 (refer file no. A3.1 pg 2) in accordance with Para A22 of SA 500 which states “Inquiry consists of seeking information of knowledgeable persons, both financial and non-financial, within the entity or outside the entity. Inquiry is used extensively throughout the audit in addition to other audit procedures. Inquiry may range from formal written inquiries to informal oral inquiries. Evaluating responses to inquiries is an integral part of the inquiry process.*
- (vi) ET also obtained the Management Representation Letter (refer file A1 Pg 100 point no. 9.07). The inquiries were corroborated with written representations in line with Para A25 of SA 500 which read as “In respect of some matters, the auditor may consider it necessary to obtain written representations from*

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management and where appropriate those charged with governance to confirm responses to oral inquiries

13.3 NFRA had examined the above contentions of the Audit Firm, received in response to the above noted NFRA's PFC, and had concluded as follows in its DAQRR dated 30th March 2021:

1. Bhilai Jaypee Cement Limited (BJCL)

NFRA notes that there are no WP references made by the Audit Firm to support its submissions made and hence, these responses are without any basis and would be considered only as an afterthought. NFRA further reiterates its observations made in PFC that:

- i. NFRA notes that the Audit Firm has not rebutted any of the observations made by NFRA in its PFC on Impairment of Investment in BJCL. The Audit Firm has only contended that they had appropriately concluded that BJCL is rightly classified as NCA held for sale. However, NFRA in its "Non-Current Assets classified as held for sale" section of this DAQRR concludes that the Audit Firm has failed to perform any audit procedures with respect to classification of BJCL as NCA held for sale. The company should have rather classified its stakes in BJCL as "Investments" in its Financial Statements. Given the facts of the case that the original timeline of the transaction had not been met and no steps were taken to extend the long stop of the agreement, it is highly unlikely that indicators were not available that BJCL should not have been classified as held for sale.
- ii. Even if assuming but not admitting that the investments made in BJCL should be classified under NCA held for sale category, NFRA notes that the company should have measured such assets in terms of Para 15 of Ind AS 105. Para 15 of Ind AS 105 requires an entity to measure a non-current asset (or disposal group) classified as held for sale at lower of its carrying amount and fair value less cost of disposal. The Audit Firm has not referred to any of the WPs in the Audit File to substantiate that the measurement of NCA held for sale is in fact made in accordance with Para 15 of Ind AS 105.
- iii. Further the workings provided by the management to derive the recoverable amount, is not in accordance with the requirements of Para 18 of Ind AS 36 as the workings provided by the management are based on the premise of Enterprise value agreed between JAL and OCL. Hence, NFRA reiterates all

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the observations made in its PFC with respect to the JAL's investments made in BJCL, the Audit Firm has failed:

- (i) To verify the agreement to sell JAL's equity stakes to OCL to cross verify the amount of Enterprise Value as taken by the management for arriving at the fair value of the entity.
- (ii) Question the management regarding the company's workings to arrive at the recoverable amount in the case of company's investments made in BJCL.
- (iii) Ask the management to compute the recoverable amount to assess whether there is any impairment of investments in BJCL in accordance with the requirements of Ind AS 36.
- (iv) Communicate significant deficiencies in valuation of investments made in BJCL to TCWG in accordance with the requirements of Para 16 of SA 260.
- (v) To exercise professional skepticism and question the management's valuation of investments in BJCL.
- (vi) To discharge its duty of due diligence and in obtaining sufficient appropriate audit evidence regarding valuation of investments in BJCL, and simply went by the Management's representation.

2. Himalaya Expressway Limited (HEL)

NFRA notes that there are no WP references made by the Audit Firm to support its submissions made and hence, these responses are without any basis and it would be considered as an afterthought. NFRA further reiterates its observations made in PFC that:

- i) As per the requirements of Para 30 and 39 of Ind AS 36, an entity is required to project cash inflows and cash outflows on continuing use of the asset or CGU in a **direct manner** and not in an indirect manner as per Ind AS 7 for arriving at the projected cash flows. In evaluating the recoverable amount of company's investments made in HEL, the company has prepared projected P&L and Balance sheets up to FY 29 and derived the value in use by preparing cash flows in an indirect method in accordance with Ind AS 7, which is not in line with the requirements of Para 30 and 39 of Ind AS 36.
- ii) Further, the Audit Firm has not submitted any of its objections on NFRA's observations made on ET's evaluation of the assumptions used by the entity and their conclusions as to whether the assumptions used are reasonable is not

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documented in the Audit File, as required by Para 23 of SA 540. This clearly indicates gross negligence on the part of ET while conducting their professional duties. Hence, this observation made by NFRA in its PFC is to be treated as an admission by the Audit Firm.

- iii) Hence, NFRA reiterates all the observations made in its PFC with respect to the JAL's investments made in HEL, the Audit Firm has failed to exercise professional skepticism and question the management's valuation of investments in HEL. The Audit Firm completely failed to discharge its duty of due diligence and in obtaining sufficient appropriate audit evidence regarding valuation of investments in HEL and simply went by the Management's representation.

3. Jaypee Cement Corporation Limited (JCCL)

NFRA notes that the Audit Firm has referred to WPs *File A3.4 (b) pg 24 to 26* to support their submissions made. These are exactly the same as referred to by NFRA while giving its detailed prima facie conclusions. There are no other WPs referred to by the Audit Firm in support of their submissions made in response to the PFC. Nevertheless, NFRA has referred to the WPs and notes as follows:

- i) The Audit Firm has stated that fair value of Shahabad plant had been considered at Rs. 936.54 cr (based on an independent external valuer) and the fair value of mineable reserves are considered at Rs. 3,364.33 cr. However, the valuation report of the Shahabad plant is dated **10th March, 2016** and the ET should have questioned management regarding this and sought explanations as to how the fair value of an asset which is valued a year ago can be treated as the fair value as on 31st March 2018. Further, ET should have verified the mining lease agreements, the basis for arriving at the value of the mineable reserves to ensure whether the value of mineable reserves taken as the basis for arriving at the recoverable amount is appropriate or not. However, in the WP *A3.4 (b) pg 24 to 26*, no working of the ET are traceable which provides explanations to the observations made by NFRA except a note on impairment in JCCL, provided by the management to the Audit Firm.
- ii) Further, the Audit Firm has not submitted any of its objections on NFRA's observations made in the following matters and hence, all the observations of NFRA made in its PFC stands validated. NFRA has observed that the Audit Firm has failed to:

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- (a) Question the management regarding the company's workings to arrive at the recoverable amount in the case of company's investments made in JCCL, which is against their own accounting policy as provided in Note 1 to the Standalone Financial Statements;
 - (b) Ask the management to compute the recoverable amount to assess whether there is any impairment of investments in JCCL in accordance with the requirements of Ind AS 36;
 - (c) Communicate significant deficiencies in valuation of investments made in JCCL to TCWG in accordance with the requirements of Para 16 of SA 260, and
 - (d) As per the Annual Report for the FY 2017-18, the amount of preference shares as at the beginning of the year (01.04.2017) was Rs. 681.51 cr. and as at the end of the year (31.03.2018) was Rs. 715. 16 cr. However, as per WP A 3.4(a&b) Pg. No. 26, the amount of preference shares as at the beginning of the year (01.04.2017) was documented as Rs. 3,100 cr and as at the end of the year (31.03.2018) it was documented as Rs. 715.16 cr. There is no explanation provided in the WPs for this mismatch between WPs and the Annual Report. Further the valuation report of Shahabad Plant which is dated **10.03.2016**, is used as a basis for arriving at the Fair Value of the plant and the ET has not even questioned the management regarding this matter. There is no basis provided by the management for taking the book value of the other plants as the fair value.
- iii) Hence, NFRA reiterates all the observations made in its PFC with respect to the JAL's investments made in JCCL, the Audit Firm has failed to exercise professional skepticism and question the management's valuation of investments in JCCL. The Audit Firm completely failed to discharge its duty of due diligence and in obtaining sufficient appropriate audit evidence regarding valuation of investments in JCCL and simply went by the Management's representation.

4. Jaypee Infratech Limited (JIL)

NFRA notes that the Audit Firm has referred to WPs *File A3.1 pg 3 point no. 15* to support their submissions made. These are exactly the same as referred to by NFRA while giving its detailed prima facie conclusions. There are no other WPs referred to

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by the Audit Firm in support of their submissions made in response to the PFC. Nevertheless, NFRA has referred to the WPs and notes as follows:

- i) The Audit Firm has stated that, *“Based on the petition and other facts filed by the creditors in NCLT, it is admitted by the lender that the assets in the company are more than the liabilities.”* There are no WP references provided by the Audit Firm to support this contention nor are there any documented Admissions by the lenders of the company traceable from the Audit file. Hence, these contentions of the Audit Firm are without any basis and would be considered as an afterthought.
- ii) The Audit Firm has admitted to the fact that there exists the indication of impairment of investments made in JIL. Further, the Audit Firm has stated in their reply that estimated value of assets of JIL as submitted to NCLT on 09.08.2017 are Rs. 17,116 cr and the estimated value of liabilities as at 31.03.2018 are 15,206.84 cr and that the assets of JIL exceed the liabilities by Rs. 1,909 cr. However, the Audit Firm has not referred to any WPs to substantiate that they have in fact verified the estimates as provided to them by the management and hence these submissions made by Audit Firm are without any basis. The Audit Firm has in WP ‘A 3.4(b) Pg 32,’ merely documented a note on impairment in JIL, provided to them by the management. Hence, NFRA reiterates its observations made in its PFC i.e., the workings provided by the management to derive the recoverable amount are not in accordance with the requirements of Para 18 of Ind AS 36.
- iii) The Audit Firm has also stated that *“Since ET has not convinced with this reply Accordingly ET decide that the matter should be qualified in the Audit report as the amount is material but not pervasive.”* The Audit Firm’s contention that ET was not convinced with the reply of the management and hence they have qualified the matter as material but not pervasive, cannot be accepted in toto, as there is no documentation of the ET’s assessment of the matter not being pervasive. The Audit Firm has not provided any WP references to support their contention of treating the matter as not pervasive.
- iv) Further, the Audit Firm has not submitted any of its objections on NFRA’s observations made in the following matters and hence, all the observations of NFRA made in its PFC stands validated. NFRA has observed that the Audit Firm has failed to:
 - (a) Question the management regarding the company’s workings to arrive at the recoverable amount in the case of company’s investments made

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- in JIL, which is against their own accounting policy as provided in Note 1 to the Standalone Financial Statements;
- (b) Ask the management to compute the recoverable amount to assess whether there is any impairment of investments in JIL in accordance with the requirements of Ind AS 36, and
 - (c) Communicate significant deficiencies in valuation of investments made in JIL to TCWG in accordance with the requirements of Para 16 of SA 260.
- v) NFRA is therefore justified in concluding that the Audit Firm failed to exercise professional skepticism and question the management's valuation of investments in JIL. The Audit Firm completely failed to discharge its duty of due diligence and in obtaining sufficient appropriate audit evidence regarding valuation of investments in JIL and simply went by Management's representation.

5. Jaiprakash Power Ventures Limited (JPVL)

NFRA notes that there are no WP references made by the Audit Firm to support their submissions made and hence, these responses are without any basis and it would be considered as an afterthought. NFRA further reiterates its observations made in PFC that:

- (i) The Audit Firm has in their response stated that *"Post approval of the plan (Strategic Debt Restructuring) and implementation thereon the company's profitability and net worth is expected to improve considerably. It could be seen from the projections that the net worth of the company would be about Rs. 13,003 Cr, which is much higher than the value of investments in the books of account at Rs. 1,742.62 crores."* There is no documentation of projections traceable in the Audit File nor has Audit Firm referred to any WPs to support their contentions. Further, the statement that the Audit Firm has quoted is based on a management's note on impairment in JPVL provided to the ET, which is documented in WP 'A 3.4(a&b) Pg 36-40'. The Audit Firm's observations on the same and their workings along with their conclusions are not available in the Audit file.
- (ii) Further, the Audit Firm has not submitted any of its objections on NFRA's observations made in the following matters and hence, all the following observations of NFRA made in its PFC stands proved. NFRA has observed that the Audit Firm has failed to:

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- (a) Question the management regarding the company's workings to arrive at the recoverable amount in the case of company's investments made in JIL, which is against their own accounting policy as provided in Note 1 to the Standalone Financial Statements;
 - (b) Ask the management to compute the recoverable amount to assess whether there is any impairment of investments in JIL in accordance with the requirements of Ind AS 36, and
 - (c) Communicate significant deficiencies in valuation of investments made in JIL to TCWG in accordance with the requirements of Para 16 of SA 260.
- (iii) NFRA is therefore justified in concluding that the Audit Firm failed to exercise professional skepticism and question the management's valuation of investments in JPVL. The Audit Firm completely failed to discharge its duty of due diligence and in obtaining sufficient appropriate audit evidence regarding valuation of investments in JPVL and simply went by Management's representation.

6. Prayagraj Power Generation Company Limited (PPGCL)

NFRA notes that the Audit Firm has referred to WPs '*File A3.4 (b) Pg 49 to 50, A3.1 pg 2 and File A1 Pg 100 point no. 9.07*' to support its submissions made. These are exactly the same as referred by NFRA while giving its detailed prima facie conclusions. There are no other WPs referred by the Audit Firm in support of their submissions made in response to PFC. Nevertheless, NFRA has referred to the WPs and notes as follows:

- (i) Section 2(6) of the Companies Act, 2013 defines Associate company in relation to another company means a company in which that other company has a significant influence, but which is not a subsidiary company of the company having such influence and includes a joint venture company. Explanation (a) to Section 2(6) of the Act states that the expression "significant influence" means **control of at least twenty per cent. of total voting power, or control of or participation in business decisions under an agreement.** (Emphasis added)
- (ii) Further, NFRA has in its PFC observed that in the case of investments made in PPGCL, after invocation of pledged shares of JPVL, the company (JAL) merely holds 11.49% of the voting power. Para 5 of Ind AS 28 states that if an entity holds, directly or indirectly (e.g. through subsidiaries), 20 per cent or more of the voting power of the investee, it is presumed that the entity has

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significant influence, unless it can be demonstrated that this is not the case. Conversely, if the entity holds, directly or indirectly (e.g. through subsidiaries), less than 20 per cent of the voting power of the investee, it is presumed that the entity does not have significant influence, unless such influence can be clearly demonstrated. Hence, on a plain reading of the requirements of Section 2(6) and Para 5 of Ind AS 28, one can clearly state that for a company to be classified as an associate company, the parent company should have twenty percent of the total share capital of that other company or should have control of business decisions under an agreement. In the present case, JAL merely holds 11.49% of the total share capital of PPGCL and there is no documentation of any agreement by the ET, to substantiate the fact that PPGCL is the associate company of JAL. This clearly proves that PPGCL is not an associate company of JAL and the company (JAL) should have accounted for its investments made in JIL at "Fair Value" in terms of Ind AS 109. But, the company has in violation of the above accounted for the investments made in PPGCL in accordance with Ind AS 28.

- (iii) The Audit Firm has in its reply stated that *"PPGCL still continued to be an associate of JAL due to former having significant influence over the latter. Pursuant to definition of Associate as given in Ind AS 28. significant influence is derived from out of 12 directors on the board of PPGCL, there are 3 common directors on the board of PPGCL and JAL, both as at 31 March 2018 hence evidencing the representation on board of directors. ET have Checked the data from MCA record at the time for finalization of balance sheet of JAL."*

NFRA notes that there are no WP references made by the Audit Firm wherein the examination done by the audit team on how having 3 directors of JAL out of 12 directors in PPGCL is going to have significant influence in order to consider it as an associate company is documented. Hence, these responses are without any basis and are considered as an afterthought.

- (iv) Further, the Audit Firm has also stated in its reply, *"ET discussed this matter with CFO of JAL and also documented the same in their Memorandum of observation as per point No 6 (refer file no. A3.1 pg 2) in accordance with Para A22 of SA 500 which states "Inquiry consists of seeking information of knowledgeable persons, both financial and non- financial, within the entity or outside the entity. Inquiry is used extensively throughout the audit in addition to other audit procedures. Inquiry may range from formal written inquiries to*

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informal oral inquiries. Evaluating responses to inquiries is an integral part of the inquiry process.” It is to be noted that Para A2 of SA 500 states that “Most of the auditor’s work in forming the auditor’s opinion consists of obtaining and evaluating audit evidence. Audit procedures to obtain audit evidence can include inspection, observation, confirmation, recalculation, reperformance and analytical procedures, often in some combination, in addition to inquiry. **Although inquiry may provide important audit evidence, and may even produce evidence of a misstatement, inquiry alone ordinarily does not provide sufficient audit evidence of the absence of a material misstatement at the assertion level, nor of the operating effectiveness of controls**” (Emphasis Added). From a plain reading of Para A2 of SA 500, one can clearly conclude that inquiry alone does not provide sufficient appropriate audit evidence with respect to absence of material misstatements or operating effectiveness of controls. Auditor is supposed to perform other audit procedures along with inquiry to obtain sufficient appropriate audit evidence. Hence, in light of the guidance provided under Para A2 of SA 500, the contentions of the Audit Firm are not tenable. NFRA reiterates its observations made in the PFC report that the accounting treatment adopted by the company is in violation of the requirements of Ind AS 27, Ind AS 28 and Ind AS 109. ET should have modified their opinion in this matter as the amount involved is material.

7. Issues raised in PFC report that have not been responded to by the Audit Firm

NFRA notes that the Audit Firm has not responded to many of the observations made in the PFC report. This clearly reflects gross negligence on the part of the Audit Firm while conducting their professional duties. Therefore, in the absence of any clarification by the Audit Firm supported by audit file documentation, it is construed that the Audit Firm has admitted to the following observation made by NFRA in its PFC:

“In the WP A 3.4(a&b) Pg. No. 51, ET has documented a table as follows:

<i>Sr. No</i>		<i>Impairment in Investments</i>	<i>Impairment in Receivables</i>	<i>Total</i>
<i>1.</i>	<i>MP JP Minerals Ltd.</i>	<i>-</i>	<i>26,55,072</i>	<i>26,55,072</i>

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2.	<i>MP JP Coal Ltd.</i>	-	<i>1,91,57,014</i>	<i>1,91,57,014</i>
3.	<i>MP JP Coal Field Ltd.</i>	<i>(62,603)</i>	-	<i>(62,603)</i>
4.	<i>Jaypee Agra Vikas Ltd.</i>	<i>3,65,49,594</i>	-	<i>3,65,49,594</i>
5.	<i>Jaypee Assam Cement Ltd.</i>	-	<i>8,99,023</i>	<i>8,99,023</i>
6.	<i>Jaypee Cement (Hockey) India Ltd.</i>	-	<i>2,80,21,134</i>	<i>2,80,21,134</i>
7.	<i>Jaypee Infrastructure Development Ltd.</i>	-	<i>18,746</i>	<i>18,746</i>
8.	<i>Yamuna Expressway Tolling Ltd.</i>	<i>5,00,000</i>	<i>27,88,320</i>	<i>32,88,320</i>
9.	<i>Gujrat Jaypee Cement & Infrastructure Ltd.</i>	<i>22,58,652</i>	-	<i>22,58,652</i>
10.	<i>RPJ Minerals Ltd.</i>	<i>(3,20,41,778)</i>	-	<i>(3,20,41,778)</i>
11.	<i>Sonebhadra Minerals P. Ltd.</i>	<i>48,093</i>	<i>1,06,305</i>	<i>1,54,398</i>
Total		<i>72,51,958</i>	<i>5,36,45,614</i>	<i>6,08,97,572</i>

- a. *The above WP contains the list of various companies and the amount of impairment in investments and receivables. The basis for arriving at the impairment figures is not provided in the WP. The ET's application of audit procedures and their conclusions as to whether the impairment computation is in accordance with the requirements of Ind AS is also not documented in the Audit File. This clearly indicates that ET has relied upon the management presented table containing the impairment figures of various subsidiaries and associate companies and not any individual assessment done by the Audit team.*

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- b. *The Company (JAL) has in Note 3 to the standalone financial statements, disclosed aggregate amount of impairment in value of investments as Rs. 543.70 crores. Except the table presented in 19 a) above, there are no WPs documented by the ET, which explains the detailed audit procedures applied by them to verify the appropriateness of the amount of impairment as disclosed by the company in Note 3 to the standalone financial statements and the conclusions reached by them, if any.*
- c. *As per Para 2.3.1.14(ix) of Master circular – Loans and Advances – Statutory and other restrictions, issued by RBI dated July 1, 2015, in case of default by borrower and the bank exercising the option of invocation of pledge, the shares get transferred in the bank's name immediately. As per Note No. 38 of standalone financial statements, during the FY 2017-18, the details of banks exercising invocation of pledge of shares are as follows:*
- (a) SBI has invoked pledge of 10 crores equity shares of JIL and sold 3.19 crore equity shares in the open market. Balance shares aggregating 6.81 crore equity shares pending disposal are shown as part of current investments at cost*
 - (b) IndusInd Bank has invoked the pledge of 6 crore equity shares of JIL and had sold 4.80 crore equity shares in the open market. Balance shares aggregating 1.20 crore equity shares pending disposal are shown as part of investments of the company.*
 - (c) Yes Bank Limited has invoked the pledge of 11,39,05,440 Equity Shares of Rs. 10-/ each of Bhilai Jaypee Cement Limited. Pending settlement with the Lender against its dues, the Company continued to show the equity shares as part of investments of the Company.*

The company by continuing to account for the shares, on which it does not have any ownership rights of the pledged shares of JIL, has overstated its investments and profit by at least Rs. 194.01 crores. The Audit Firm in their reply to NFRA query 2.2 has stated that "as per General terms of the Loan agreement, a security given for loan shall be adjusted against the borrowing for which it was given and any excess amount received from the realization of sales proceed from the security shall be refunded back to the borrower and if any shortfall shall be asked from the borrower for payment the same. Hence these shares and the loan against these shares were not adjusted and both were shown in the

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financial statements of the Company for the year ended 31st March 2018.” However, the Audit Firm has not referred to any WP in their response to NFRA query supporting their assertion and which is construed as an attempt to mislead NFRA.

- d. *On the basis of sample cases alone and examined by NFRA, the financial statements of JAL for the FY 2017-18 appears to have shown profit which was inflated by at least Rs. 1,567.48 crores as summarized below:*
- ***Rs. 137.78 crores in JIL***
 - ***Rs. 895.69 crores in JPVL***
 - ***Rs. 340.00 crores in PPGCL***
 - ***Rs. 194.01 crores in BJCL and JIL***
8. Therefore, NFRA concludes that the Audit Firm has:
- a) Failed to disclose material facts known to them which are not disclosed in financial statements, but disclosure of which is necessary in making such financial statements where they are concerned with those financial statements in professional capacity.
 - b) Failed to report a material misstatement known to them to appear in a financial statement with which they are concerned in professional capacity.
 - c) Not exercised due diligence or are grossly negligent in the conduct of their professional duties.
 - d) Not carried out the audit according to Standards on Auditing.
 - e) Failed to obtain sufficient information which is necessary for expression of an opinion, or its exceptions are sufficiently material to negate the expression of an opinion.
 - f) Failed to invite attention to a material departure from the generally accepted procedure of audit applicable to the circumstances.

13.4 In communication dated 14th June 2021 the Audit Firm has submitted its response to the DAQRR dt. 30th March 2021 issued by NFRA, as follows:

1. *Bhilai Jaypee Cement Limited (BJCL)*

*As stated in the reply to NFRA’s prima-facie comments dated 28th Nov 2020 ET verified that BJCL is a joint venture between JAL and SAIL. JAL has 74% equity stake in BJCL. JAL has entered into definitive agreement with Orient Cement Limited (OCL) for sales of its stake in Bhilai Jaypee Cement Limited (BJCL). The transaction is subject to regulatory and other approvals. Investments in BJCL have been carried at Rs. 407.72 Cr in the books of account as at 31 March 2018. Further, BJCL for the year resulted in an operating loss of **Rs. 6.86 Cr. As against operating loss of Rs. 42.48 Cr.** during the previous year. After taking into account the impact of interest, Rs. 12.27 Cr and considering depreciation of Rs. 38.80 Cr, BJCL has incurred loss of Rs. 57.94 Cr*

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before tax. It shows that BJCL decreased its loss in the current year as compared to previous year.

JAL has entered into a binding sale agreement with OCL for sale of its 74% stake in BJCL for an enterprise value of Rs. 1,450 crores in FY 2016. As there is a binding agreement, it itself provide an audit evidence that this transaction is highly provable. Further ET discussed this matter with the CFO of the Company and explained by the COF that company will complete this transaction within stipulated time. The director's report for FY 2018 also states the fact that the company intends to execute the agreement with OCL thereby mentioning below in their director's report as well. "The Company had accepted, on 6th October 2016, an in principle offer from Orient Cement Limited (OCL), belonging to CK Birla Group, for acquisition of entire 74% equity stake of JAL in Bhilai Jaypee Cement Limited (BJCL), a Joint Venture Company of JAL & Steel Authority of India Limited (SAIL), based on a total enterprise value of Rs. 1,450 Crores subject to adjustments for Working Capital & Financial Indebtedness. BJCL owns 1.1 MTPA clinker plant at Babupur, Satna, MP. (Commissioned in December 2009) and 2.2 MTPA cement Grinding Unit at Bhilai, Chhattisgarh (commissioned in August 2010). The Company has signed a definitive agreement on 31st May 2017 for the same. It is expected that the transaction would be consummated soon."

Given above facts with engagement team, the asset was rightly classified as held for sale and its valuation has been carried out by an independent external Valuer. As per para 22(c) of IND AS 10 Ind AS 105 is a non-adjusting event, it means that if a asset is classified as assets held for Non-Current Assets Held for Sales as on reporting date the status for the same will not be change if the situation change on approval of financial date. However, in this situation definitive agreement has not been cancelled till the signing of Audit Report and management assure that the transaction will be consummated.

In the present case, Fair value less costs to sell is represented by the following table reproduced again for reference:

Particulars	Value in Cr
Enterprise Value	1450
Less: Adjustment on account of Negative NWC	168
Less: Refundable Advance from JAL (A)	512
Net Equity Value	770
JAL share (74%)	570

The above workings are also part of file A3.4 (b) pg 2. Since JAL has already entered into a binding sale agreement for sale of its 74% stake on BJCL to OCL, the future cash flows have been derived from its ultimate disposal as there was no continuing use of the asset for a longer period of time to estimate and discount those cash flows. The recoverable amount of Rs. 570 crores are higher than the carrying amount of Rs. 407.72 crores and hence no impairment loss was envisaged by the engagement team.

The matter was discussed with concerned staff and concerned officers of the company time to time only after verification of the records. ET had verified the company's documents and then reached on the conclusion on this important matter.

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2. Himalaya Expressway Limited (HEL)

The Audit Firm has quoted Para 30 of Ind AS 36 and has further stated as follows:

Cash flow from Indirect Method is only a form of presentation of cash flow and gives the same result as cash flow prepared through direct method. The objective of preparation of cash flow is estimate the future cash flow the entity expects to derive from the assets to compute the recoverable amount.

ET reviewed and discussed with concerned staff and concerned officers of the company time to time only after verification of the records, the cash flow statement along with projected balance sheet and statement of profit and loss prepared by the company and reached at recoverable amount which is more than the carrying value. HEL is wholly owned subsidiary of JAL, wherein the intention of the management is to run the business on a long term and not only benefit from its dividend and market share value. Accordingly, ET goes with the intention of management not to impair this investment. ET had verified the company's documents and then reached on the conclusion on this important matter.

3. Jaypee Cement Corporation Limited (JCCL)

The Audit Firm has quoted Para 18, 19 and 21 of Ind AS 36 and has further stated as follows:

As stated in the reply to NFRA's prima-facie comments dated 28th Nov 2020 ET verified the impairment study prepared by the management and cross verify the recoverable amount.

In the present case, the fair value has been considered as Rs. 936.54 crores based on an independent external Valuer for Shahabad plant and Rs. 3364.33 crores for minable reserves, Total amounting to Rs. 4300.87 Crores which exceeds the carrying amount of Rs. 2,169.87 Crores. (Refer file A3.4 (b) pg 24 to 26). Even only valuation of minable reserves is much more than the carrying amount. Accordingly, ET reached on the conclusion that there is no case of Impairment.

4. Jaypee Infratech Limited (JIL)

As stated in the reply to NFRA's prima-facie comments dated 28th Nov 2020 ET verified the impairment study prepared by the management. In this case, as per the petition filed by IDBI Bank with Hon'ble NCLT, Allahabad Bench U/s 7 of Insolvency & Bankruptcy Code, 2016 in respect of JIL which was admitted vide Order dated 9th August 2017 and Interim Resolution Professional (IRP) was appointed to carry the functions as mentioned under the Code. Based on the petition and other facts filed by the creditors in NCLT, it is admitted by the lender that the assets in the company are more than the liabilities. Brief values of which are as follows:

- a. *Estimated value of assets of JIL submitted to NCLT dated 09.08.2017: Rs. 17,116 Cr*
- b. *Liabilities as at 31.03.2018: Rs. 15,206.84 Cr*

The assets of JIL exceeds the liabilities by Rs. 1,909 crores which is much more than the value of investments which was Rs. 849.26 crores and also together with all other

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assets which comprise deposits amounting to Rs. 550 crores and current receivables of 341.75 crores.

Further ET also assess the External Indicator of Impairment which indicates that the market price per share as on 31.03.2018 is Rs. 8.40 per share as compared to carrying value of Rs. 10.03 per share. ET considered that fair value as on 31.03.2018 is Rs. 711.48 Crores as compared to carrying value of Rs. 849.26 crores. ET observed that there is diminution in the value of investment of Rs. 137.78 crores which is material. ET asked the management for the reason for not providing this dilution, but management replied that the book value is higher than carrying amount. (Refer Memorandum of observation as per point No 15 (refer file no. A3.1 pg 3) Since ET has not convinced with this reply Accordingly ET decide that the matter should be qualified in the Audit report as the amount is material but not pervasive (refer Response to Issue 1: Independent Auditor's report on standalone Financial Statements (Qualified Opinion).

ET had verified the company's documents and then reached on the conclusion to give a qualified opinion on this matter.

5. Jaiprakash Power Ventures Limited (JPVL)

As stated in the reply to NFRA's prima-facie comments dated 28th Nov 2020 Strategic Debt Restructuring was implemented in JPVL in 2016 whereby loan aggregating to Rs. 3,058 Cr were converted into Equity shares at par on 18.12.2017. This led to reduction of shareholding from 60.69% to 29.74%, the lenders having 51% of its share capital (as on 31.03.2018), and balance remaining with public. At present Deep Restructuring of public debt is under advance stage. This debt would be structured into two parts sustainable and unsustainable which would be converted into long term instrument with negligible cost. Post approval of the plan and implementation thereon the company's profitability and net worth is expected to improve considerably. It could be seen from the projections that the net worth of the company would be about Rs. 13,003 Cr, which is much higher than the value of investments in the books of account at Rs. 1,742.62 crores. After considering the present scenario and future synergy ET had gone with the management view not to impair this investment.

6. Prayagraj Power Generation Company Limited (PPGCL)

ET followed the audit procedures as stated in the reply to NFRA's prima-facie comments dated 28th Nov 2020. ET had not separately documented regarding the followings which were pointed out by NFRA.

- significant influence of JAL over PPGCL.
- accounting treatment followed by the company being appropriate.
- Presentation and disclosure of the investments made in PPGCL by JAL.

The Audit Firm has quoted associate definition under Para 3 and Para 6 of Ind AS 28 and has further stated as, "However, ET has examined that significant influence of JAL over PPGCL and raised observation on this matter, it is itself evidenced that ET had examined the records of the company and had knowledge on the subject matter. Further As per Ind AS 28 PPGCL still continued to be an associate of JAL due to later having significant influence over the former. Above significant influence is derived from having one Managing director of JAL, Mr. Manoj Gaur, was also a Director of PPGCL, and having an important role in decision making of both the companies. Out of 12 directors on the board of PPGCL, there are three below mentioned common

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directors on the board of PPGCL and JAL, both as at 31 March 2018 which evidences the representation on the board of directors per above stated guidance.

- Sunil Kumar Sharma (DIN no. 00008125)
- Sunny Gaur (DIN no. 00008293)
- Manoj Gaur (DIN no. 00008480)

In light of the above facts, PPGCL was continued to be shown as investment in associate company of JAL as at 31 March 2018. As per Ind AS 109, company has exercised an option to keep the investment in associate at cost.

Audit firm performed impairment testing of its investment in PPGCL per Ind AS 36, Impairment of assets. Refer file A3.4 (b) pg 49 to 50 in audit files submitted. As stated in PPGCL Impairment testing document, the Company is having long term PPA for sales of Electricity and Debt restructuring proposal has already been submitted with the lenders. On the basis of discussion with the Management ET understood that debt restructuring in PPGCL will have positive effect.

ET also reviewed the Audit report and financial statements of PPGCL. As per Note no. 32 of financial statements of PPGCL, first unit was commissioned in February 2016, second unit in September 2016 and third unit in May 2017. During these years plants was not operated at optimum level due to shortage of working capital. Company had PPA upto 90% of Power generated and also had FSA for meeting 90% coal (main raw material) requirement. Initially, the Company incurred losses in its early period of commencement of operations, on the basis of discussion with the management ET understood that there will not be losses in the future years.

ET had documented observation at final stage when he discussed the matter with CFO to finalize the audit report. However, the matter was already discussed with concerned staff and concerned officers of the company time to time. Further ET had also got Management Representation letter on this matter.

ET had verified the company's documents and then reached on the conclusion that company has rightly showing this investment as Investment in Associate and not impaired the same in light of Ind AS 28 read with Ind AS 36 it can be stated as that there is no material misstatements exists in the Financial Statements.

7. Issues raised in PFC report that have not been responded to by the Audit Firm (Point no 12.13)

List of various companies and the amount of impairment in investments and receivables as per working paper no. WP A 3.4(a&b) Pg. No. 51 is backed by two supported documents ending with page no. 52 where working impairment has been attached. Impairment has been computed on the basis of audited financials of the respective companies.

Replies of all other points of point no 12.13.2 of DAQR Report on Statutory Audit of JAL, FY 2017- 18 are replied in each independent section of Investment and accordingly ET **agree/disagree** with the view of NFRA that the company (JAL) has shown profit which was inflated by at least Rs. 1,567.48 crores which is summarized below:

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- ***Rs. 137.78 crores in JIL*** – ET agreed with this inflation as observed by NFRA and accordingly gave a qualified opinion in their audit report as explained in point no 3 of investment portion of this reply.
- ***Rs. 895.69 crores in JPVL*** – Reason that ‘ET has not agreed about this inflation observed by NFRA’ as described in Point No. 5 of Investment portion of this reply and according to ET, company has rightly shown this investment at cost in the financial statements.
- ***Rs. 340.00 crores in PPGCL*** – Reason that ‘ET has not agreed about this inflation observed by NFRA’ as described in Point No. 6 of Investment portion of this reply and according to ET, company has rightly shown this investment at cost in the financial statements.
- ***Rs. 194.01 crores in BJCL and JIL*** – Reason that ‘ET has not agreed about this inflation observed by NFRA’ as described in Point No. 1 with regards to BJCL of Investment portion of this reply and according to ET, company has rightly shown this investment at cost in the financial statements. ET agreed with the inflation in the investment of JIL as observed by NFRA and accordingly gave a qualified opinion in their audit report.

13.5 The Audit Firm’s responses dated 14th June 2021, to the NFRA DAQRR observations, have been examined and NFRA’s observations thereon are as follows:

1. Bhilai Jaypee Cement Limited (BJCL)

- a) NFRA notes that the Audit Firm has referred to WP ‘A3.4 (b) pg 2’ which was exactly the same WP that was reviewed by NFRA while framing its detailed DAQRR report. The Audit Firm has not provided references to any new WPs in support of their contentions made in [Para 13.4.1](#). Without prejudice to this, NFRA has perused the Audit Firm’s response on its merit, if any.
- b) The submissions made by the Audit Firm in [Para 13.4 1](#). above are the very same contentions made by them in their response to NCA Classified as held for sale section of our DAQRR and these have been examined in great detail by NFRA while framing its DAQRR observations in [Para 14.1.3](#). For the sake of brevity, NFRA has not reproduced its response and has only provided reference to specific part of [Para 14.1.3](#).
- c) The assertion of the Audit Firm “*As there is a binding agreement, it itself provide an audit evidence that this transaction is highly provable. Further ET discussed this matter with the CFO of the Company and explained by the COF (sic) that company will complete this transaction within stipulated time*”, is
 - I. without any support from the Audit File since the Audit Firm has failed to document the facts (including the stipulated time of completion of sale, conditions precedent and expiration of long stop date), audit procedures performed, and conclusion drawn thereon. The Audit Firm has not even obtained a copy of the purported binding agreement and placed it in the audit file. In the absence of a copy of the said agreement in the audit file, NFRA

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concluded that the audit firm has not examined the said agreement in any manner whatsoever;

- II. misleading, since even though the Audit Firm asserts that “definitive agreement” allegedly indicated that the sale was highly probable, that the appropriate level of management was committed to a plan to sell the asset, and an active programme to complete the plan had been initiated, the mere presence of such a “definitive agreement” does not alone indicate that it is likely that significant changes to the plan would not be made or that the plan would not be withdrawn (Para 8 of Ind AS 105). Specifically, in this case, where the plan had already missed its original timeline and no actions were taken to complete the plan or extend the long stop date that was due shortly, the Audit Firm was required to discuss the action plan of the management and assess whether those actions indicated that the plan would be completed. However, the Audit Firm did not perform any audit procedures in this regard. The assertion of the Audit Firm that “*ET discussed this matter with the CFO of the Company and explained by the COF (sic) that company will complete this transaction within stipulated time*” stands without any basis since neither had the Audit Firm documented any discussion with regard to classification of BJCL as held for sale, **nor was the transaction on track to be completed within the stipulated time**, i.e. during October to December 2017 (as per the Company’s disclosure to the stock exchange).

Assuming, but not admitting, that the Audit Firm had discussed the matter with the CFO of the Company, who stated that the transaction would be completed within the stipulated time, NFRA notes that it should have rather made the Auditor exercise highest degree of professional skepticism than accepting it on face value. The Audit Firm should have communicated with the TCWG considering the fact that the transaction had already missed its “stipulated” timeline. In the absence of any indication that actions were being taken to extend the long stop date and complete the plan, the investment in BJCL should not have been classified as NCA held for sale.

- d) The Audit Firm in its reply had also quoted Para 22 (c) of Ind AS 10, asserting that classification of asset as held for sale in accordance with Ind AS 105 is a non-adjusting event. The Audit Firm stated that the “definitive agreement” had not been cancelled till the signing of Audit Report and management assured that the transaction would be consummated. However, NFRA noted that the Audit Firm has not provided any

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reference to WP from the audit file to support its contentions. There are also no WPs available in the audit file that suggests that assurance/representation, regarding the fact that the transaction would be consummated and action were being taken to complete the plan, was taken from the management. In the absence of any WP references, this response can only be considered as an afterthought.

- e) The Audit Firm's contention was that they had appropriately concluded that BJCL is rightly classified as NCA held for sale. However, NFRA in its "Non-Current Assets classified as held for sale" section of this DAQRR concludes that the Audit Firm had failed to perform any audit procedures with respect to classification of BJCL as NCA held for sale. The company should have rather classified its stakes in BJCL as "Investments" in its Financial Statements. Given the facts of the case that the original timeline of the transaction had not been met and no steps were taken to extend the long stop of the agreement, it is highly unlikely that indicators were not available that BJCL should not have been classified as held for sale.
- f) Even if assuming but not admitting that the investments made in BJCL should be classified under NCA held for sale category, NFRA notes that the company should have measured such assets in terms of Para 15 of Ind AS 105. Para 15 of Ind AS 105 requires an entity to measure a non-current asset (or disposal group) classified as held for sale at lower of its carrying amount and fair value less cost of disposal. The Audit Firm has not referred to any of the WPs in the Audit File to substantiate that the measurement of NCA held for sale is in fact made in accordance with Para 15 of Ind AS 105.
- g) Further, the contentions made by the Audit Firm, "*The matter was discussed with concerned staff and concerned officers of the company time to time only after verification of the records. ET had verified the company's documents and then reached on the conclusion on this important matter*" are not acceptable because of the reasons stated in [Para 13.3.1.III](#).

2. Himalaya Expressway Limited (HEL)

- a) NFRA notes that the Audit Firm has failed to provide any WP references or any other audit evidence from the audit file to support its submissions. Hence, these responses are without any basis and are an afterthought only. Without prejudice to this, NFRA has perused the Audit Firm's response on its merit, if any.
- b) The submissions made by the Audit Firm in [Para 13.4.2](#) above are the very same contentions made by them in their response to PFC and these have been

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examined in great detail by NFRA while framing its DAQRR observations in [Para 13.3.2](#). For the sake of brevity, NFRA has not reproduced its response and has only provided reference to specific part of [Para 13.3.2](#).

- c) The Audit Firm's contentions, "*Cash flow from Indirect Method is only a form of presentation of cash flow and gives the same result as cash flow prepared through direct method*" are not acceptable because of the following reasons:
- I. Para 39 of Ind AS 36, states that estimates of future cash flows shall be made on the basis of projections of cash inflows from continuing use of asset, projections of cash outflows that incurred to generate cash inflows from continuing use of asset and those cash outflows that can be directly attributed, or allocated on a reasonable and consistent basis, to the asset and the net cash flows, if any to be received (or paid) for the disposal of the asset at the end of its useful life. On a plain reading of the above requirements of Ind AS 36, it can be clearly stated that Ind AS requires an entity to make estimates of future cash flows on a direct basis, i.e. on continuing use of an asset or Cash Generating Unit.
 - II. The Audit Firm has not referred to any WP, wherein it was documented that the cash flows from indirect method gives the same results as cash flows from direct method.
 - III. Para 8 (c)(i) of SA 540 requires the auditor to obtain understanding of how the management makes the accounting estimates, and an understanding of the data on which they are based, including the method used in making the accounting estimates. Further, Para A25 of SA 540 states that in some cases, the applicable financial reporting framework may prescribe the method of measurement for an accounting estimate. Hence on a plain reading of the above Paras of SA 540, one can clearly conclude that when a method of measurement is prescribed by the Applicable Accounting Framework, then it shall be followed by the entity while making the accounting estimates. Further, Para A26 of SA 540 clearly states that there may be greater risks of material misstatement, for example, in cases where management has internally developed a model to be used to make the accounting estimate or is departing from a method commonly used in a particular industry or environment. In the present case, the management has estimated the future cash flows on the basis of indirect method in accordance with Ind AS 7, instead of estimating the

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cash flows in accordance with Para 39 of Ind AS 36 and the Audit Firm has not raised any objections on this method of making accounting estimates. Hence, the contentions of the Audit Firm are not tenable.

- d) Further, the contentions of the Audit Firm, “*ET reviewed and discussed with concerned staff and concerned officers of the company time to time only after verification of the records, the cash flow statement along with projected balance sheet and statement of profit and loss prepared by the company and reached at recoverable amount which is more than the carrying value..... ET had verified the company’s documents and then reached on the conclusion on this important matter*” are not acceptable because of the reasons stated in [Para 13.3.2 above](#).

3. Jaypee Cement Corporation Limited (JCCL)

- a) NFRA notes that the Audit Firm has referred to WP ‘*A3.4 (b) pg 24 to 26*’ which was exactly the same WP that was reviewed by NFRA while framing its detailed DAQRR report. The Audit Firm has not provided references to any new WPs in support of their contentions made in [Para 13.4.3](#). Without prejudice to this, NFRA has perused the Audit Firm’s response on its merit, if any.
- b) The submissions made by the Audit Firm in [Para 13.4.3](#) above are the very same contentions made by them in their response to the PFC and these have been examined in great detail by NFRA while framing its DAQRR observations in [Para 13.3.3](#). For the sake of brevity, NFRA has not reproduced its response and has only provided reference to specific part of [Para 13.3.3](#).
- c) The contentions of the Audit Firm, “*ET verified the impairment study prepared by the management and cross verify the recoverable amount..... Accordingly, ET reached on the conclusion that there is no case of Impairment*” are not acceptable because of the reasons stated in [Para 13.3.3](#) above.

4. Jaypee Infratech Limited (JIL)

- a) NFRA notes that the Audit Firm has referred to WP ‘*A3.1 pg 3*’ which was exactly the same WP that was reviewed by NFRA while framing its detailed DAQRR report. The Audit Firm has not provided references to any new WPs in support of their contentions made in [Para 13.4.4](#). Without prejudice to this, NFRA has perused the Audit Firm’s response on its merit, if any.
- b) The submissions made by the Audit Firm in [Para 13.4.4](#) above are the very same contentions made by them in their response to the PFC and these have been examined in great detail by NFRA while framing its DAQRR

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observations in [Para 13.3.4](#). For the sake of brevity, NFRA has not reproduced its response and has only provided reference to specific part of [Para 13.3.4](#).

- c) The contentions of the Audit Firm, “*The assets of JIL exceeds the liabilities by Rs. 1,909 crores which is much more than the value of investments which was Rs. 849.26 crores and also together with all other assets which comprise deposits amounting to Rs. 550 crores and current receivables of 341.75 crores..... ET observed that there is diminution in the value of investment of Rs. 137.78 crores which is material. ET asked the management for the reason for not providing this dilution, but management replied that the book value is higher than carrying amount*” are not acceptable because of the reasons stated in [Para 13.3.4.ii](#)) above.
- d) The contentions of the Audit Firm, “*Since ET has not convinced with this reply Accordingly ET decide that the matter should be qualified in the Audit report as the amount is material but not pervasive ET had verified the company’s documents and then reached on the conclusion to give a qualified opinion on this matter*” are not acceptable because of the reasons stated in [Para 13.3.4.iii](#)) above.

5. Jaiprakash Power Ventures Limited (JPVL)

- a) NFRA notes that the Audit Firm has failed to provide any WP references or any other audit evidence from the audit file to support its submissions. Hence, these responses are without any basis and are an afterthought only. Without prejudice to this, NFRA has perused the Audit Firm’s response on its merit, if any.
- b) The submissions made by the Audit Firm in [Para 13.4.5](#) above are the very same contentions made by them in their response to the PFC and these have been examined in great detail by NFRA while framing its DAQRR observations in [Para 13.3.5](#). For the sake of brevity, NFRA has not reproduced its response and has only provided reference to specific part of [Para 13.3.5](#).
- c) The contentions of the Audit Firm, “*It could be seen from the projections that the net worth of the company would be about Rs. 13,003 Cr, which is much higher than the value of investments in the books of account at Rs. 1,742.62 crores. After considering the present scenario and future synergy ET had gone with the management view not to impair this investment*” are not acceptable because of the reasons stated in [Para 13.3.5\(i\)](#) above.

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6. Prayagraj Power Generation Company Limited (PPGCL)

- a) NFRA notes that the Audit Firm has referred to WP ‘A3.4 (b) pg 49 to 50’ which was exactly the same WP that was reviewed by NFRA while framing its detailed DAQRR report. The Audit Firm has not provided references to any new WPs in support of their contentions made in [Para 13.4.6](#). Without prejudice to this, NFRA has perused the Audit Firm’s response on its merit, if any.
- b) The submissions made by the Audit Firm in [Para 13.4.6](#) above are the very same contentions made by them in their response to the PFC and these have been examined in great detail by NFRA while framing its DAQRR observations in [Para 13.3.6](#). For the sake of brevity, NFRA has not reproduced its response and has only provided reference to specific part of [Para 13.3.6](#).
- c) The Audit Firm’s response in [Para 13.4.6](#) that “*ET had not documented regarding the followings as pointed out by NFRA As per Ind AS 28 PPGCL still continued to be an associate of JAL due to later having significant influence over the former Above significant influence is derived from having one Managing director of JAL, Mr. Manoj Gaur, was also a Director of PPGCL, and having an important role in decision making of both the companies. Out of 12 directors on the board of PPGCL, there are three below mentioned common directors on the board of PPGCL and JAL, both as at 31 March 2018 which evidences the representation on the board of directors per above stated guidance*” clearly proves NFRA’s observations made in [Para 13.3.6.\(ii\)](#) and [Para 13.3.6.\(iii\)](#) above.
- d) The contentions of the Audit Firm, “*ET had documented observation at final stage when he discussed the matter with CFO to finalize the audit report. However, the matter was already discussed with concerned staff and concerned officers of the company time to time. Further ET had also got Management Representation letter on this matter. ET had verified the company’s documents and then reached on the conclusion that company has rightly showing this investment as Investment in Associate and not impaired the same in light of Ind AS 28 read with Ind AS 36 it can be stated as that there is no material misstatements exists in the Financial Statements*” are not acceptable because of the reasons stated in [Para 13.3.6.\(iv\)](#) above.

7. Issues raised in PFC report that have not been responded to by the Audit Firm

- a) NFRA notes that the Audit Firm has referred to WP ‘A 3.4(a&b) Pg. No. 51’ which was exactly the same WP that was reviewed by NFRA while framing its

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detailed DAQRR report. The Audit Firm has not provided references to any new WPs in support of their contentions made in [Para 13.4.7](#). Without prejudice to this, NFRA has perused the Audit Firm's response on its merit, if any.

- b) The contentions of the Audit Firm, "*Impairment has been computed on the basis of audited financials of the respective companies*" are not acceptable because of the reasons stated in [Para 13.3.7.a](#) and [Para 13.3.7.b](#) above.
- c) The contentions of the Audit Firm, "*ET agree/disagree with the view of NFRA that the company (JAL) has shown profit which was inflated by at least Rs. 1,567.48 crores.....*" are not acceptable because of the reasons stated in [Para 13.3.7.c](#) and [Para 13.3.7.d](#) above.

13.6 Therefore, NFRA concludes that the Audit Firm has:

- a. Not exercised due diligence and has been grossly negligent in the conduct of their professional duties.
- b. Failed to obtain sufficient information which is necessary for expression of an opinion, or its exceptions are sufficiently material to negate the expression of an opinion.
- c. Failed to invite attention to a material departure from the generally accepted procedure of audit applicable to the circumstances.
- d. Not ensured compliance with the provisions of the Companies Act, 2013.

14. NON-CURRENT ASSETS HELD FOR SALE

Bhilai Jaypee Cement Limited (BJCL)

14.1.1 Based on response of the Audit Firm, to the NFRA's questionnaire dated 30th September 2019, NFRA had conveyed the following prima facie conclusions on 30th September 2020:

- a) NFRA observed that investment of Rs. 407.7 Crores in BJCL was classified as held for sale for the FY 2017-18. Company's disclosure to BSE dated 31st May 2017 stated that the expected date of completion was during October to December 2017, although **the transaction was still pending on 19th May 2018** (date of signing of audit report). In light of the above facts and requirements of Ind AS 105 (Para 8 read with Para 26), the Audit Firm was required to
 - i. Review the definitive agreement (that was a precursor to understanding the nature of transaction and conditions precedent, and for successful completion of sale) and if actions required to complete the plan are indicating that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.
 - ii. Discuss with the TCWG and the management, the actions being taken on the progress of the sale process of BJCL, since the transaction which was supposed to close in December 2017 was pending even in May 2018.
- b) Further, NFRA also noted that the transaction was cancelled by OCL, just 11 days after the signing off of the Audit Report, since the long stop date expired on 31st May 2018.
- c) After detailed examination of the audit file, NFRA concluded that the Audit Firm **did not perform any audit procedures** and had **failed to obtain sufficient appropriate audit evidence** regarding the classification of BJCL as NCA held for sale. The Audit Firm did not even review and document the definitive agreement signed between the Company and OCL, that was mentioned in the director's report for FY 2017-18. Given the facts (stated in point (a) above), it was highly unlikely that indication relating to action not being taken, to complete the plan were not available. This is evident since even the long stop was not extended and subsequently expired. Thus, had the auditor duly discharged his duties and communicated with TCWG as required by Para

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16 of SA 260 and evaluated compliances with Para 26 read with Para 27 of Ind AS 105, BJCL should have ceased to be classified as NCA held for sale.

- d) The Audit Firm had also failed to check for the compliances with disclosures requirements as enumerated in para 41(b) of Ind AS 105, which specifically require a description of the facts and circumstances of the sale, or leading to the expected disposal, and the expected manner and timing of that disposal. Simply mentioning that the sale is expected to be consummated soon, as stated in the Annual Report for FY 2017-18, even though the transaction missed its original timeline and given the fact, that no actions were initiated to extend the long stop date (complete the plan), was not in accordance with the requirements of Ind AS 105.
- e) Hence, the Audit Firm has failed to exercise professional skepticism and perform audit procedures to verify the appropriateness of classification of investment of Rs. 407.7 Crores in BJCL as NCA held for sale. The Audit Firm completely failed to discharge its duty of due diligence and in obtaining sufficient appropriate audit evidence and simply went by the Management's representation.

14.1.2 The Audit Firm in its response, to NFRA's prima-facie comments, dated 28th Nov 2020, stated that

"JAL has entered into a binding sale agreement with OCL for sale of its 74% stake in BJCL for an enterprise value of Rs. 1,450 crores in FY 2016. As there is a binding agreement, it itself provide an audit evidence that this transaction is highly provable. Further ET discussed this matter with the CFO of the Company and explained by the COF (sic) that company will complete this transaction within stipulated time. The director's report for FY 2018 also states the fact that the company intends to execute the agreement with OCL thereby mentioning below in their director's report as well. "The Company had accepted, on 6th October 2016, an in-principle offer from Orient Cement Limited (OCL), belonging to CK Birla Group, for acquisition of entire 74% equity stake of JAL in Bhilai Jaypee Cement Limited (BJCL), a Joint Venture Company of JAL & Steel Authority of India Limited (SAIL), based on a total enterprise value of Rs. 1,450 Crores subject to adjustments for Working Capital & Financial Indebtedness. BJCL owns 1.1 MTPA clinker plant at Babupur, Satna, MP. (commissioned in December, 2009) and 2.2 MTPA cement Grinding Unit at Bhilai, Chhattisgarh (commissioned in August, 2010). The Company

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has signed a definitive agreement on 31st May 2017 for the same. It is expected that the transaction would be consummated soon."

- i. Given these facts with engagement team, the asset was rightly classified as held for sale and its valuation has been carried out by an independent external valuer.*
- ii. As per para 22(c) of IND AS 10 Ind AS 105 is a non adjusting event, it means that if a assets is classified as assets held for Non Current Assets Held for Sales as on reporting date the status for the same will not be change if the situation change on approval of financial date. However in this situation definitive agreement has not been cancelled till the signing of Audit Report and management assure that the transaction will be consummated*
- iii. The recoverable amount of Rs. 570 crores is higher than the carrying amount of Rs. 407.72 crores and hence no impairment loss was envisaged by the engagement team.” (emphasis added)*

14.1.3 NFRA had examined the above contentions of the Audit Firm, received in response to above noted NFRA’s PFC, and had concluded as follows in its DAQRR dated 30th March 2021:

- a) NFRA noted that there are no WP references made by the Audit Firm to support its submissions made and hence, these responses are without any basis and have to be considered only as an afterthought. However, notwithstanding the above, NFRA had examined all the contentions of the Audit Firm in detail.
- b) The assertion of the Audit Firm *“As there is a binding agreement, it itself provide an audit evidence that this transaction is highly provable. Further ET discussed this matter with the CFO of the Company and explained by the COF (sic) that company will complete this transaction within stipulated time”*, were
 - i. without any support from the Audit File since the Audit Firm has failed to document the facts (including the stipulated time of completion of sale, conditions precedent and expiration of long stop date), audit procedures performed, and conclusion drawn thereon. The Audit Firm has not even obtained a copy of the purported binding agreement and placed it in the audit file. In the absence of a copy the said agreement in the audit file, NFRA concluded that the audit firm has not examined the said agreement in any manner, whatsoever.

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- ii. misleading, since even though the Audit Firm asserts that “definitive agreement” allegedly indicated that the sale was highly probable, that the appropriate level of management was committed to a plan to sell the asset, and an active programme to complete the plan had been initiated, the mere presence of such a “definitive agreement” does not alone indicate that it is likely that significant changes to the plan would not be made or that the plan would not be withdrawn (Para 8 of Ind AS 105). Specifically, in this case, where the plan had already missed its original timeline and no actions were taken to complete the plan or extend the long stop date, that was due shortly, the Audit Firm was required to discuss the action plan of the management and assess whether those actions indicated that the plan would be completed. However, the Audit Firm did not perform any audit procedures in this regard. The assertion of the Audit Firm that “*ET discussed this matter with the CFO of the Company and explained by the COF (sic) that company will complete this transaction within stipulated time*” stands without any basis since neither had the Audit Firm documented any discussion with regard to classification of BJCL as held for sale, **nor was the transaction on track to be completed within the stipulated time**, i.e. during October to December 2017 (as per the Company’s disclosure to the stock exchange).

Assuming, but not admitting, that the Audit Firm had discussed the matter with the CFO of the Company, who stated that the transaction would be completed in the stipulated time, NFRA notes that it should have rather made the Auditor exercise highest degree of professional skepticism than accepting it on face value. The Audit Firm should have communicated with the TCWG considering the fact that the transaction had already missed its “stipulated” timeline. In the absence of any indication that actions were being taken to extend the long stop date and complete the plan, the investment in BJCL should not have been classified as NCA held for sale.

- c) The Audit Firm in its reply had also quoted Para 22 (c) of Ind AS 10, asserting that classification of asset as held for sale in accordance with Ind AS 105 is a non-adjusting event. The Audit Firm stated that the “definitive agreement” had

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not been cancelled till the signing of Audit Report and management assured that the transaction would be consummated. However, NFRA noted that the Audit Firm has not provided any reference to WP from the audit file to support its contentions. As concluded in point (14.2.2) above, there are also no WPs available in the audit file that suggests that assurance/representation, regarding the fact that the transaction would be consummated and action were being taken to complete the plan, was taken from the management. In absence of any WP references this response can only be considered as an afterthought.

- d) Notwithstanding the above, NFRA notes that the BJCL transaction, that was stipulated to be completed during October to December 2017, was pending even on 31st March 2018. Para 3 of Ind AS 10 states that *“Events after the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are approved by the Board of Directors in case of a company, and, by the corresponding approving authority in case of any other entity for issue. Two types of events can be identified: (a) those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period); and (b) those that are indicative of conditions that arose after the reporting period (nonadjusting events after the reporting period).”* (emphasis added).

Clearly, there were indications available that required the Audit Firm to understand

- i) the status of the transaction and
- ii) the steps being taken by the management to complete the plan

to appropriately conclude that there is no evidence of unfavourable condition at the end of the reporting period. Although, NFRA has not been able to trace any WP that could have indicated that the Audit Firm had performed audit procedures in this regard. Given the fact that the unfavorable condition was present even at the date of end of financial period, NFRA concludes that the assertion that this event is a non- adjusting events, is only an afterthought and is stated only to mislead NFRA.

Further, even assuming that change in character of BJCL as NCA Held for Sale was a non-adjusting event and no indications were available as at the end of a

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financial period, the auditor should have pointed about the non disclosure of material information. NFRA notes that Para 21 of Ind AS 10 requires that the entity shall disclose the following for each material category of non-adjusting (non-disclosure of which could influence economic decision of users of financial statements) event after the reporting date:

- i) the nature of the event; and
- ii) an estimate of its financial effect, or a statement that such an estimate cannot be made.

Also, Para 10 of SA 560 states that “The auditor has no obligation to perform any audit procedures regarding the financial statements after the date of the auditor’s report. However, when, after the date of the auditor’s report but before the date the financial statements are issued, a fact becomes known to the auditor that, had it been known to the auditor at the date of the auditor’s report, may have caused the auditor to amend the auditor’s report, the auditor shall: (a) Discuss the matter with management and, where appropriate, those charged with governance. (b) Determine whether the financial statements need amendment and, if so, (c) Inquire how management intends to address the matter in the financial statements.” (emphasis added).

Therefore, merely by stating that Ind AS 105 is a non-adjusting event, the Audit Firm is not absolved of its responsibilities as stated in Para 10 of SA 560 and to confirm compliance with relevant financial reporting framework. The Company issued its annual report for FY 2017-18 on 21st Dec 2018 and thus, the Audit Firm was required to discuss the termination of agreement with the management/TCWG and determine whether the financial statements need amendment. However, the Audit Firm failed to comply with the requirements of Para 10 of SA 560 and ensure compliance with the requirements of Para 21 of Ind AS 10. The Audit Firm completely failed to exercise professional skepticism, due diligence and failed to obtain sufficient appropriate audit evidence. The Audit Firm simply went by its discussion with the CFO and did not perform audit procedures with regard to classification of BJCL as NCA held for sale.

- e) The Audit Firm had even failed to check for the compliances with disclosures requirements as enumerated in para 41(b) of Ind AS 105, which specifically

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require a description of the facts and circumstances of the sale, or leading to the expected disposal, and the expected manner and timing of that disposal.

- f) Hence, NFRA reiterated all the observations made in its PFC with respect to the classification of investments in BJCL. The Audit Firm has failed:
- i. To obtain sufficient appropriate audit evidence with regard to classification of BJCL as NC held sale.
 - ii. Question the management and take update whether actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.
 - iii. To exercise professional skepticism and communicate significant deficiencies in classification and disclosure, with regard to investments in BJCL, to TCWG in accordance with the requirements of Para 16 of SA 260.
 - iv. To discharge its duty of due diligence and in obtaining sufficient appropriate audit evidence.

14.1.4 In communication dated 14th June 2021 the Audit Firm has submitted its response to the DAQRR dt. 30th March 2021 issued by NFRA, as follows:

- a) *“As stated in the reply to NFRA’s prima-facie comments dated 28th Nov 2020 ET verified that BJCL is a joint venture between JAL and SAIL. JAL has 74% equity stake in BJCL. JAL has entered into definitive agreement with Orient Cement Limited (OCL) for sales of it’s stake in Bhilai Jaypee Cement Limited (BJCL). The transaction is subject to regulatory and other approvals. Investments in BJCL have been carried at Rs. 407.72 Cr in the books of account as at 31 March 2018. Further, BJCL for the year resulted in an operating loss of Rs. 6.86 Cr. as against operating loss of Rs. 42.48 Cr. during the previous year. After taking into account the impact of interest, Rs. 12.27 Cr, and considering depreciation of Rs. 38.80 Cr, BJCL has incurred loss of Rs. 57.94 Cr before tax.*
- b) *JAL has entered into a binding sale agreement with OCL for sale of its 74% stake in BJCL for an enterprise value of Rs. 1,450 crores in FY 2016. As there is a binding agreement, it itself provide an audit evidence that this transaction is highly provable. Further ET discussed this matter with the CFO of the Company and explained by the CFO that company will complete this*

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transaction within stipulated time. It is evident that ET has knowledge of the case and discussed the matter with the company's knowledgeable personal.

- c) *The director's report for FY 2018 also states the fact that the company intends to execute the agreement with OCL thereby mentioning below in their director's report as well. "The Company had accepted, on 6th October 2016, an in-principle offer from Orient Cement Limited (OCL), belonging to CK Birla Group, for acquisition of entire 74% equity stake of JAL in Bhilai Jaypee Cement Limited (BJCL), a Joint Venture Company of JAL & Steel Authority of India Limited (SAIL), based on a total enterprise value of Rs. 1,450 Crores subject to adjustments for Working Capital & Financial Indebtedness. BJCL owns 1.1 MTPA clinker plant at Babupur, Satna, MP (commissioned in December, 2009) and 2.2 MTPA cement Grinding Unit at Bhilai, Chhattisgarh (commissioned in August, 2010). The Company has signed a definitive agreement on 31st May 2017 for the same. It is expected that the transaction would be consummated soon." It itself represent that matter has been duly represented before board of directors.*
- d) *As explained above engagement team is of the opinion that the asset was rightly classified as held for sale by the management in line with the para 6 to 9 of Ind As 105 and it's valuation has been carried out by an independent external Valuer.*
- e) *As per para 22(c) of IND AS 10 Ind AS 105 is a non adjusting event, it means that if a assets is classified as assets held for Non Current Assets Held for Sales as on reporting date the status for the same will not be change if the situation change on approval of financial date. Further in this situation definitive agreement has not been cancelled till the signing of Audit Report and management assure that the transaction will be consummated.*
- f) *ET had verified the company's documents and then reached on the conclusion that company has rightly showing this investment as NCA held for sale and also not impaired the same."*

14.1.5 The Audit Firm's responses dated 14th June 2021, to the NFRA DAQRR observations, have been examined and NFRA's conclusions thereon are as follows:

- a) NFRA notes that the Audit Firm has failed to provide any WP references to support its submissions. Hence, these responses are without any basis and have to be considered only as an afterthought. Without prejudice to this, NFRA has perused the Audit Firm's response on its merit, if any.

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b) NFRA notes that the Audit Firm has not made any rebuttal to NFRA's DAQRR observations/comments. The Audit Firm has repeated the same assertion that it made in reply to NFRA's PFC. The Audit Firm has not given any consideration to NFRA's comments, as noted in [Para 14.1.3](#) above. For the sake of brevity, NFRA has not reproduced its response, that is available in [Para 14.1.3](#) above, and has only provided reference to the specific part of the [para 14.1.3](#), for each of the Audit Firm's assertion.

i. The Audit Firm assertion that *"As there is a binding agreement, it itself provide an audit evidence that this transaction is highly provable. Further ET discussed this matter with the CFO of the Company and explained by the CFO that company will complete this transaction within stipulated time"* has been rebutted in detail in [Para 14.1.3 \(b\)](#). The binding agreement had already missed its stipulated timeline. Even the long stop date of the agreement was due to expire within 11 days of the audit report, and no action was taken by the Company to extend the long stop date of the agreement. Thus the assertion that the transaction was *"highly provable"* is incorrect.

Further, there is no evidence for the assertion that *"ET discussed this matter with the CFO"*. The Audit Firm has time and again failed to provide any WP reference.

As concluded in NFRA's DAQRR, this should have rather made the Auditor exercise highest degree of professional skepticism than accepting it on face value. The Audit Firm should have communicated with the TCWG considering the fact that the transaction had already missed its "stipulated" timeline. In the absence of any indication that actions were being taken to extend the long stop date and complete the plan, the investment in BJCL should not have been classified as NCA held for sale.

ii. The Audit Firm assertion that *"The director's report for FY 2018 also states the fact that the company intends to execute the agreement with OCL thereby mentioning below in their director's report as well... It itself represent that matter has been duly represented before board of directors"* does not prove that the Audit Firm had exercised professional skepticism and obtained sufficient appropriate audit evidence to conclude that the BJCL has been correctly classified as Non-Current Asset held for Sale. As proved by NFRA in its PFC and

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DAQRR, in light of the fact available, BJCL should not have been classified as Non-Current Asset held for Sale. Further, as noted in [Para 14.1.3 \(c\)](#) above, the Audit Firm had even failed to check for the compliances with disclosures requirements as enumerated in para 41(b) of Ind AS 105.

- iii. The Audit Firm's assertion that "*As per para 22(c) of IND AS 10 Ind AS 105 is a non adjusting event*" is also misleading. As enumerated in [Para 14.1.3 \(b\)](#) above, there were indications available that required the Audit Firm to understand the status of the transaction and understand the steps being taken by the management to complete the plan, to appropriately conclude that there is no evidence of unfavourable condition at the end of the reporting period.

Further, even assuming that change in character of BJCL as NCA Held for Sale was a non-adjusting event and no indications were available as the end of financial period, as has been implicitly mentioned by the Audit Firm, NFRA notes that it did not absolve the Audit Firm of its responsibilities stated in Para 10 of SA 560 and to confirm compliance with relevant financial reporting framework.

14.1.6 Therefore, NFRA concludes that the Audit Firm has failed:

- a) To obtain sufficient appropriate audit evidence with regard to classification of BJCL as NCA held sale.
- b) Question the management and take update whether actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.
- c) To exercise professional skepticism and communicate significant deficiencies in classification and disclosure, with regard to investments in BJCL, to TCWG in accordance with the requirements of Para 16 of SA 260.
- d) To discharge its duty of due diligence and in obtaining sufficient appropriate audit evidence.

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Sale of Identified Cement Plants to UltraTech Cement Limited (UTCL)

14.2.1 Based on response of the Audit Firm, to the NFRA's questionnaire dated 30th September 2019, NFRA had conveyed the following prima facie conclusions on 30th September 2020:

- a) The Audit Firm failed to document any audit evidence on the verification of sale of identified cement plants to UltraTech Cement Limited (arrangement that was consummated w.e.f. 29th June, 2017 – excluding Jaypee Super Cement Plant). The Audit Firm did not document any audit procedures to understand the conditions precedent for vesting of the Jaypee Super Plant and based on which the plant continued to be part of NCA held for sale. Para 41 (b) of Ind AS 105 states the disclosure requirements that includes the expected manner and timing of disposal. However, on perusal of Note No. "31" of the SFS, pertaining to the scheme of arrangement between the Company and Jaypee Cement Corporation Limited and UltraTech Cement Limited, and Note No. "47" of the SFS, pertaining to the Non-Current assets held for sale, NFRA noted that the financial statements failed to meet the requirement of Para 41 (b) of Ind AS 105. The ET also failed to
 - i. verify if complete sale consideration was in fact received by the company.
 - ii. verify the appropriateness of the accounting treatment followed for transfer of profits, by the company.
 - iii. to conclude whether there are any material misstatements noticed after performing the audit procedures.
 - iv. NFRA notes that the Audit Firm had merely relied upon the management's representations without actually performing any audit procedures to verify the correctness of NCA classified as held for sale.

14.2.2 The Audit Firm in its response, to NFRA's prima-facie comments, dated 28th Nov 2020, stated that "*The scheme of arrangement has been consummated w.e.f. 29 June 2017. Identified cement plants of JAL and JCCL was sold to Ultratech Cement Limited, however one of the cement plants (JP Super) which was awaiting environmental clearance from the respective authority hence the same was shown as held for sale in the balance sheet with corresponding loan component in liability side to nullify the impact. The stated plant was already a part of Identified cement plants*

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that was negotiated for sale to UltraTech hence this qualifies to be disclosed as held for sale under the requirements of Ind AS 105”.

14.2.3 NFRA had examined the above contentions of the Audit Firm, received in response to above noted NFRA’s PFC, and had concluded as follows in its DAQRR dated 30th March 2021:

- a) NFRA noted that there are no WP references made by the Audit Firm to support its submissions made and hence, these responses are without any basis and have to be considered only as an afterthought. Further, neither the annual report of JAL for the FY 2017-18 nor the Audit File state anywhere the fact stated by the Audit Firm in its reply, i.e. JP Super Plant was awaiting environmental clearance from the respective authority. Note No. 31 of the Consolidated Financial Statements, with regard to JP Super Cement Plant, only states that *“Since the vesting of the Jaypee Super Plant is subject to the conditions precedent, the Assets of Plant are continued to be shown as Non-Currents assets classified as held for sale and Series A Redeemable preference shares issued by UTCL in escrow account as a Contingent Assets.”* Para 9 of Ind AS 105 states that *“Events or circumstances may extend the period to complete the sale beyond one year. An extension of the period required to complete a sale does not preclude an asset (or disposal group) from being classified as held for sale if the delay is caused by events or circumstances beyond the entity’s control and there is sufficient evidence that the entity remains committed to its plan to sell the asset (or disposal group). This will be the case when the criteria in Appendix B are met.”* Therefore, the Audit Firm was required to perform audit procedures and document
- i. The conditions precedent and if the events/circumstances are beyond the entity’s control.
 - ii. There is sufficient evidence that the entity remains committed to its plan to sell the asset.

However, the Audit Firm failed has completely failed to perform any audit procedures or document any conclusion reached with regard to JP Super Cement Plant.

- b) As observed in PFC, the Audit Firm had also failed to document any audit evidence for the verification of sale of identified cement plants to UltraTech Cement Limited (arrangement that was consummated w.e.f. 29th June, 2017 –

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excluding Jaypee Super Cement Plant). NFRA noted that the Audit Firm has not replied to these observations. This clearly indicates gross negligence on the part of the Audit Firm while conducting their professional duties. Therefore, it is construed that the Audit Firm has admitted to the observation made by NFRA in its PFC. The Audit Firm did not perform any audit procedures to verify

- i. if complete sale consideration was in fact received by the company.
 - ii. the appropriateness of the accounting treatment followed for transfer of profits, by the company.
- c) Hence, NFRA reiterated all the observations made in its PFC. The Audit Firm has failed:
- i. To obtain sufficient appropriate audit evidence with regard to classification of JP Super as NCA held sale.
 - ii. To verify if complete sale consideration was in fact received by the company and verify the appropriateness of the accounting treatment followed for transfer of profits, by the company.
 - iii. To exercise professional skepticism and communicate significant deficiencies in classification and disclosure to TCWG in accordance with the requirements of Para 16 of SA 260.

14.2.4 In communication dated 14th June 2021 the Audit Firm has submitted its response, to the DAQRR dt. 30th March 2021 issued by NFRA, as follows: *“As stated in the reply to NFRA’s prima-facie comments dated 28th Nov 2020 ET verified that the scheme of arrangement has been consummated w.e.f. 29 June 2017. Identified cement plants of JAL and JCCL was sold to Ultratech Cement Limited, however one of the cement plants (JP Super) which was awaiting environmental clearance from the respective authority hence the same was shown as held for sale in the balance sheet with corresponding loan component in liability side to nullify the impact. As stated in the financial statements ‘Since the vesting of the Jaypee Super Plant is subject to the conditions precedent’ it means there are some conditions pending to be comply with and that condition was environmental clearance from the respective authority not yet received by the company as mentioned in the Reply to NFRA’s prima-facie report. JP super plant was already a part of Identified cement plants that was negotiated for sale to UltraTech hence this qualifies to be disclosed as held for sale under the requirements of Ind AS 105.*

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ET had verified the company's documents and then reached on the conclusion that company has rightly showing this as NCA held for sale."

14.2.5 The Audit Firm's responses dated 14th June 2021, to the NFRA DAQRR observations, have been examined and NFRA's conclusions thereon are as follows:

- a) NFRA notes that the Audit Firm has failed to provide any WP references to support its submissions. Hence, these responses are without any basis and have to be considered only as an afterthought. Without prejudice to this, NFRA has perused the Audit Firm's response on its merit, if any.
- b) NFRA notes that the Audit Firm has not made any rebuttal to NFRA's DAQRR observations/comments. The Audit Firm has repeated the same assertion that it made in reply to PFC. The Audit Firm has not given any consideration to NFRA's comments, as noted in [Para 14.2.2](#) above. The Audit Firm did not even provide any response to [Para 14.2.3 \(b\)](#) that states that in accordance with Para 9 of Ind AS 105, the Audit Firm was required to perform audit procedures and document
 - i. The conditions precedent and if the events/circumstances are beyond the entity's control.
 - ii. There is sufficient evidence that the entity remains committed to its plan to sell the asset.

Further, the Audit Firm did not even rebut to NFRA's observation that the Audit Firm failed to document any audit evidence for the verification of sale of identified cement plants to UltraTech Cement Limited (arrangement that was consummated w.e.f. 29th June, 2017 – excluding Jaypee Super Cement Plant). Therefore, the assertion of the Audit Firm that "*ET had verified the company's documents and then reached on the conclusion that company has rightly showing this as NCA held for sale.*" is proved to be without any basis and only an afterthought.

14.2.6 Therefore, NFRA concludes that the Audit Firm has failed:

- a) To obtain sufficient appropriate audit evidence with regard to classification of JP Super as NCA held sale.
- b) To verify if complete sale consideration was in fact received by the company and verify the appropriateness of the accounting treatment followed for transfer of profits, by the company.

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- c) To exercise professional skepticism and communicate significant deficiencies in classification and disclosure to TCWG in accordance with the requirements of Para 16 of SA 260.

SDZ-RE undertaking to be transferred to JIDL through Scheme of Demerger

14.3.1 Based on response of the Audit Firm, to the NFRA's questionnaire dated 30th September 2019, NFRA had conveyed the following prima facie conclusions on 30th September 2020:

- a) NFRA observed that that the SDZ-RE undertaking (assets with a book value of Rs. 4,727.6 Crores and Liabilities of Rs. 11,833.5 Crores) was to be transferred and vested in the wholly owned subsidiary of the Company, namely, Jaypee Infrastructure Development Limited (JIDL), for a consideration of 1,00,000 shares in JIDL, as a part of restructuring / reorganization / realignment of the debt of the Company through the Scheme of Demerger. The scheme was subject to sanction by National Company Law Tribunal, Allahabad. The Company had classified the same as NCA held for sale.
- b) From the minutes of the Audit Committee meeting dated on 07th Oct 2017, NFRA noted that the management had appointed M/s. Bansi S. Mehta & Co. (Chartered Accountants) and M/s. Corporate Capita Ventures Pvt. Ltd. (Merchant Bankers) for valuation and fairness opinion, respectively, to confirm the consideration of 1,00,000 shares in JIDL with regard to the transfer of SDZ to JIDL. M/s. Bansi S. Mehta & Co. provided valuation report that was entirely based on JLL's (a valuer engaged at the instance of the Joint Lenders' Forum of JAL) valuation report dated 28th July 2016 of land parcels totaling 950.35 acres. Further, the Audit Committee, in its meeting dated 07th Oct 2017, (WP – File 10.3) while noting the observations from the Independent Valuer, also noted the salient features of the scheme of arrangement between JAL and JIDL, which stated that the scheme would be beneficial to both JIDL and JAL, since
- i. Debt burden and recurring interest liability of JAL (Rs. 11,834 Crores) will be transferred to JIDL, and
 - ii. With the land parcel, JIDL would be insulated from any headwinds that may occur in business operations and JIDL could carry its business more conveniently with greater focus and attention.

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This was noted even though the extracts from the minutes of the Audit Committee of the Company had also noted the following statement from the valuation report, *“On consideration of the above varying cost of funds, we observe that the value of SDZ undertaking ranges from a relatively small positive to negative”* and the fact that JIDL had yet to commence its operation and had zero turnover.

- c) However, on examination of the audit file, NFRA could not trace any documentation of the Valuation reports in the Audit File. There was no work done to understand of the work of management expert as required by Para 8 of SA 500. This was even though the WP – File K 10.3 (pg. 31 – 44), stated that *“copies of requisite Auditor’s certificates to accounting treatment as provided in the scheme and the net-worth, turnover and profitability, with percentages, of the undertaking being hived off and remaining business of JAL, were also placed before the committee, as the same were required to be submitted to the Stock Exchanges”*. Neither the certificates nor the verification of workings by the Audit Firm were traceable from the audit file.

14.3.2 The Audit Firm in its response, to NFRA’s prima-facie comments, dated 28th Nov 2020, stated that *“As a part of restructuring/ reorganization/ realignment of the debt of the company, the Scheme of Demerger of the Undertaking (SDZ-RE) comprising identifiable moveable and immovable assets and liabilities to be transferred to and vested in the wholly owned subsidiary of the company, namely Jaypee Infrastructure Development Limited (JIDL) as a going concern, on a slump exchange basis is pending for sanction with NCLT Allahabad.” With the formation of Real estate SPV and transfer of debt to such SPV, JAL’s obligations to such debt and related liabilities stands extinguished. The said scheme was approved by Independent evaluation committee in its meeting held on 19 June 2017, further the scheme was approved by Joint Lender’s forum in their meeting held on 22 June 2017, at last, it was only pending approval from NCLT due to which the assets and liabilities were identified and shown as “held for sale”. This qualifies the requirements of Ind AS 105 having management’s intention to sale/demerger in near future”*

14.3.3 NFRA had examined the above contentions of the Audit Firm, received in response to above noted NFRA’s PFC, and had concluded as follows in its DAQRR dated 30th March 2021: The Audit Firm had not replied to the any of the prima facie conclusions that were made by NFRA. This clearly indicates gross negligence on the part of the

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Audit Firm while conducting their professional duties. Therefore, it is construed that the Audit Firm has admitted the correctness of the conclusions made by NFRA in the PFC report.

14.3.4 In communication dated 14th June 2021 the Audit Firm has submitted its response, to the DAQRR dt. 30th March 2021 issued by NFRA, as follows:

- a) *“As stated in the reply to NFRA’s prima-facie comments dated 28th Nov 2020 ET verified that it was only pending approval from NCLT due to which the assets and liabilities were identified and shown as “held for sale”. This qualifies the requirements of Ind AS 105 having management’s intention to sale/demerger in near future.*
- b) *Further ET has itself given the Auditor certificate as stated by NFRA and certificate and related document has been kept in the certificate file and not supplied to NFRA as NFRA has asked only audit working file. It means ET has checked the Auditor certificate of accounting treatment and also verified working.*
- c) *ET had verified the company’s documents and issued Auditor’s Certificate and then reached on the conclusion that company has rightly showing this as NCA held for sale.”*

14.3.5 The Audit Firm’s responses dated 14th June 2021, to the NFRA’s DAQRR observations, have been examined and NFRA’s conclusions thereon are as follows:

- a) NFRA notes that the Audit Firm has failed to provide any WP references to support its submissions. Hence, these responses are without any basis and have to be considered only as an afterthought. Without prejudice to this, NFRA has perused the Audit Firm’s response on its merit, if any.
- b) NFRA notes that the Audit Firm has not made any rebuttal to NFRA’s DAQRR or PFC observations/comments that there was no work done on Valuation reports, to understand the work of management expert as required by Para 8 of SA 500.
- c) Further, NFRA also concluded that there was no trace of the verification done by the Audit Firm or of the Auditor’s certificates that was issued for the accounting treatment of the demerger, as provided in the scheme. In its reply to NFRA DAQRR, the Audit Firm stated that *“Further ET has itself given the Auditor certificate as stated by NFRA and certificate and related document has been kept in the certificate file and not supplied to NFRA as NFRA has asked only audit working file. It means ET has checked the Auditor certificate of*

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accounting treatment and also verified working". NFRA notes that there is no work, whatsoever, with regard the verification done, traceable from the audit file. There is not even a reference to the stated "Auditor's Certificate" available in the audit file. Therefore, the assertion of the Audit Firm that "*ET has checked the Auditor certificate of accounting treatment and also verified working*" is only an afterthought. This is proved since the Audit Firm has failed to provide reference to even a single WP, both in response to the NFRA's PFC and the DAQRR, whereby it carried audit procedures with regard to the same.

14.3.6 Therefore, NFRA concludes that the Audit Firm is found to have:

- a) Failed to obtain sufficient information and audit evidence which is necessary for expression of an opinion or its exceptions are sufficiently material to negate the expression of an opinion;
- b) Not exercised due diligence, and have been grossly negligent in the conduct of their professional duties;
- c) Not carried out the audit according to Standards on Auditing;
- d) Not maintained professional skepticism, professional competence and due care and other ethical requirements during the audit;
- e) Not disclosed complete information to users of Financial Statements as required under relevant Financial Reporting Framework.

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15. REVENUE

15.1 Based on response of the Audit Firm to the NFRA's questionnaire dated 30th September 2019, NFRA had conveyed the following prima facie conclusions on 30th September 2020:

- a) NFRA had observed that the employee benefit expenses reduced by Rs 4.52 crores, finance expenses reduced by Rs 2,265.89 crores and depreciation reduced by Rs 18.23 crores, as compared to previous year. The total construction cost reduced by 42.78% as compared to previous year, i.e., from Rs 4,482.35 crores in FY 2016-17 to Rs 2,564.90 crores in FY 2017-18. Therefore, the auditor should have verified that as compared to increase in revenue by 40% from construction division, why the total construction cost got reduced by 42.78%. If the construction revenue increased by 40%, then the number of employees required to complete the construction project should have also increased and should have led to increase in salary/ employee benefit expenses. However, employee benefit expenses were decreasing. ET should have been more skeptical and verified the management replies with caution. ET has simply accepted the replies of the management without verifying them, which can be corroborated by the fact that there were no WPs, which explains the ET's evaluation of management replies.
- b) Yamuna Expressway Tolling Limited (YETL) had provided security deposit of Rs. 600 cr to JAL in FY 16-17 and in FY 17-18, the amount of security deposit had become Nil and inventory as Land under development is shown as Rs. 600 cr. Further as per the explanations of Management, based on Debt Assets Swap, a plot of land is sold to bank and adjusted against the outstanding loans. Since this transaction was not in the ordinary course of business, the company should not have recognized revenue to this effect. Even assuming for the sake of argument, but not admitting that revenue in this case can be recognized, it should have been accompanied by booking the cost of land as well. Booking only revenue without booking the cost of land would amount to misstatement. This transaction had led to inflation of revenue and profits of the company by at least Rs. 600 cr. ET should have been more skeptical and verified the management replies with caution. Instead, ET had simply accepted the replies of the management without critically verifying the same, which can be corroborated by the fact that there were no WPs which showed the ETs verification of management replies.
- c) To understand the audit procedures applied by the ET, with respect to their verification of revenue from construction & Real Estate projects, NFRA had examined WPs File C 7.1 for Project REP, File C7.2 for Project Jaypee Greens, File

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E8.09 for Project Srisailam, File F8.11 for Project PHP & HEP and File F8.12 for Project MHEP and it had noted that, as against the specific requirements of Ind AS 11 the stated WPs merely contained the trial balance for the respective projects, confirmations balance of a few bank statements, statement of advances to employees, employee salary sheets, security deposit sheets, and sub contract expenses. For the verification of sales, the ET had simply stated N.A. which explains that no work regarding revenue recognition has been done by the ET. From the referred WPs, one cannot adequately conclude as to the appropriateness and adequacy of the amount of revenue recognized by the company and cannot in any way be treated as a substitute for the verification of contract and sub-contract copies, copies of sale agreements or independent engineer reports, determination of percentage of completion of the respective projects, cost sheets of the respective projects, any physical verification report by the management or the ET and the basis for ascertaining and evaluating the revenue as per the policy of the company and the requirements of Ind AS 11.

- d) For real estate projects, the management had stated the details of the projects like the estimated cost of the projects, the saleable area and the actual amount of the projects sold to the customers (WPs C 7.1 & C 7.2). But the basis for estimation of the cost of the project and the basis of recognition of the revenue had neither been documented in the WPs nor verified by the auditor, as required by Para 23 of SA 540. The ET had just relied upon the management provided documents without performing any audit procedures, as required by Para 8(c), 17, 18, 19, 20 and 21 of SA 540. Hence, ET had failed to comply with the requirements of SA 540, which required them to document their conclusions about the reasonableness of the accounting estimates and indicators of possible management bias, if any.
- e) In the case of verification of revenue from the Power Division, NFRA noted that the rates derived from the table in the WP C 7.4 Page 78 are lower than that agreed to in the Power Purchase Agreement (PPA) of FY 2014 with KFCL. Further, since the names of the buyers to whom the units were sold were not stated in the WP, it was not clear if all the units were sold to one buyer or multiple buyers. The table in WP C7.4 Page 78, only depicts revenue of Rs 10.77 crores and there were no documents available regarding the ET's verification of the other power revenue amounting to Rs. 200 crores. There were no details in the WP C7.4 regarding the agreement copies with other buyers, and capacity of the power plants. The tariff rates to each buyer and the revision of rates with KFCL since 2014 which was to be done every year as per the terms of agreement were not traceable in the audit file. Hence it was concluded that the auditor had failed to obtain sufficient appropriate audit evidence as required by

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Para 6, 7 & para 8 of SA 500 regarding their verification of sale of power and also failed to evaluate the company's compliance with the requirements of Para 14 of Ind AS 18.

- f) To understand the audit procedures applied by the ET with respect to their verification of revenue from Hotel division, NFRA had examined the referred WP B 6.1 -6.7 which merely contained the details of bonus paid to staff, expenses on repair & maintenance, fixed deposits, cash certificates. There were no WPs traceable in the audit file which explained the ET's evaluation of revenue from Hotel division as required by Technical Guide on Audit in Hotel Industry to obtain sufficient appropriate audit evidence. Hence, ET had failed to comply with the requirements of Para 6, 7 and 8 of SA 500 and the requirements of Technical Guide on Audit in Hotel Industry.

- 15.2** The Audit Firm in its reply to NFRA's prima-facie comments dated 28th Nov 2020, stated that *“Employee cost is not directly related to Construction Revenue. It is like an indirect cost. Employee's costs which are directly related to Construction Revenue are taken under Direct Construction Costs. Accordingly comparing Employee's Costs with revenue is not justifiable. Further it is not huge decline in the employee cost accordingly ET had not verified in detail this difference. ET observed that there is huge decline in finance cost during the year as compared to previous year and found that the finance cost has been decreased due to the below reason: a) Company has entered into Master Restructuring Agreement with its lender. Accordingly Loan amount of the Company has been substantially decreased in the company b) Reduction in interest rates to 9.5% on remaining loan thereby further pushing down the finance cost drastically. ET compared depreciation computation of CY with PY and there is no major decrease in the depreciation. While reviewing the FAR of the company ET observed that there are some assets life of which had been completely exhausted in FY 2016-17 and in some cases in FY 2017-18. Further company has sold some Fixed assets in FY 2016-17 accordingly depreciation has been charged in FY 2016-17 but no depreciation has been charged in FY 2017-18. In case of Land sales to Yamuna Expressway Tolling Limited (YETL), JAL got advance amounting to Rs. 600 Crores in Financial Year 2016-17 and showed it as Other Payable to Related Parties in the Financial statements. In the financial year 2017-18 JAL sold a portion of land to YETL at the rate of 600 Crores and booked its revenue as the sales of land is the normal business transaction of JAL. Further JAL also reduced its inventory and charge the same in the statement of profit and loss. Accordingly JAL has not overstated its profit as well as revenue and doing correct treatment in the statement of profit and loss. In case of Debt Assets Swap JAL loan liability has been reduced as consideration of Revenue and accordingly*

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JAL has booked it's revenue and also reduced it's inventory i.e. land booked under PUD in the financial statements by charging the sale in the statement of profit and loss."

15.3 NFRA had examined the above contentions of the Audit Firm, received in response to the above noted NFRA's PFC, and had concluded as follows in its DAQRR dated 30th March 2021:

- a. NFRA notes that there are no WP references made by the Audit Firm in support of their submissions made and hence, these responses are without any basis and are not acceptable and would be considered as an afterthought.
- b. The Audit Firm has referred to WPs C 7.1 Pg 95, G 8.39 Pg 83, F 8.12 Pg 305 to 309, D 8.03 Pg 170 to 172, D 8.04 Pg 181 to 198, E 8.06 Pg 19-21, 73, E 8.08 Pg 110-114 and C 7.1 Pg 386-391 in their response for NFRA's observations made on revenue from construction and real estate projects. The Audit Firm has provided 6 tables explaining differences in amounts as per WP Pg 107 of A 3.1, 2 & 3 and amount as per Annual Report - Segment Information. The Audit Firm has also stated that WP Pg 107 of A 3.1,2&3 is prepared only for the purpose of comparing the budget for FY 2018-19 with actual data for FY 2017-18 and that this WP is only for internal use by the auditor for getting knowledge about future of the company. The referred WP is not a reportable document.

NFRA has re-examined the referred WPs in detail and our observations are as follows:

WP Referred	NFRA's Observations
C 7.1 Pg 95	<p>This WP contains Trial Balance and WIP workings of Real Estate Project – Noida (REP-Noida).</p> <p>From the referred WPs, one cannot adequately conclude as to the appropriateness and adequacy of the amount of revenue recognized by the company and cannot in any way be treated as a substitute for the verification of contract and sub-contract copies, copies of sale</p>

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	<p>agreements or independent engineer reports, determination of percentage of completion of the respective projects, cost sheets of the respective projects, any physical verification report by the management or the ET and the basis for ascertaining and evaluating the revenue as per the policy of the company and the requirements of Ind AS 11. The audit procedures applied and the conclusions reached by the ET on the above WPs are also not traceable</p>
G 8.39 Pg 83	<p>This WP contains a statement of RA bills of Gorakhpur Highway project.</p> <p>From the referred WPs, one cannot adequately conclude as to the appropriateness and adequacy of the amount of revenue recognized by the company and cannot in any way be treated as a substitute for the verification of contract and sub-contract copies, copies of sale agreements or independent engineer reports, determination of percentage of completion of the respective projects, cost sheets of the respective projects, any</p>

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	<p>physical verification report by the management or the ET and the basis for ascertaining and evaluating the revenue as per the policy of the company and the requirements of Ind AS 11. The audit procedures applied and the conclusions reached by the ET on the above WPs are also not traceable</p>
F 8.12 Pg 305 to 309	<p>The WP contains the status of RA bills of Mangdechchu Hydroelectric Project (MHEP).</p> <p>From the referred WPs, one cannot adequately conclude as to the appropriateness and adequacy of the amount of revenue recognized by the company and cannot in any way be treated as a substitute for the verification of contract and sub-contract copies, copies of sale agreements or independent engineer reports, determination of percentage of completion of the respective projects, cost sheets of the respective projects, any physical verification report by the management or the ET and the basis for ascertaining and evaluating the revenue as per the policy of the company and the</p>

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	<p>requirements of Ind AS 11. The audit procedures applied and the conclusions reached by the ET on the above WPs are also not traceable</p>
D 8.03 Pg 170 to 172	<p>The WP contains the details of scrap sales and the details of fines & penalties of Baglihar Project.</p> <p>From the referred WPs, one cannot adequately conclude as to the appropriateness and adequacy of the amount of revenue recognized by the company and cannot in any way be treated as a substitute for the verification of contract and sub-contract copies, copies of sale agreements or independent engineer reports, determination of percentage of completion of the respective projects, cost sheets of the respective projects, any physical verification report by the management or the ET and the basis for ascertaining and evaluating the revenue as per the policy of the company and the requirements of Ind AS 11. The audit procedures applied and the conclusions reached by the ET on</p>

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	the above WPs are also not traceable
D 8.04 Pg 181 to 198	<p>The WP contains Trial Balance, Bank guarantees, statement of contract receipt prepared by the company of Kevadia Project.</p> <p>From the referred WPs, one cannot adequately conclude as to the appropriateness and adequacy of the amount of revenue recognized by the company and cannot in any way be treated as a substitute for the verification of contract and sub-contract copies, copies of sale agreements or independent engineer reports, determination of percentage of completion of the respective projects, cost sheets of the respective projects, any physical verification report by the management or the ET and the basis for ascertaining and evaluating the revenue as per the policy of the company and the requirements of Ind AS 11. The audit procedures applied and the conclusions reached by the ET on the above WPs are also not traceable</p>

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E 8.06 Pg 19-21, 73	<p>The WP contains the details of Material cost and Closing WIP of AMAN Project.</p> <p>From the referred WPs, one cannot adequately conclude as to the appropriateness and adequacy of the amount of revenue recognized by the company and cannot in any way be treated as a substitute for the verification of contract and sub-contract copies, copies of sale agreements or independent engineer reports, determination of percentage of completion of the respective projects, cost sheets of the respective projects, any physical verification report by the management or the ET and the basis for ascertaining and evaluating the revenue as per the policy of the company and the requirements of Ind AS 11. The audit procedures applied and the conclusions reached by the ET on the above WPs are also not traceable</p>
E 8.08 Pg 110-114	<p>The WP contains WIP workings and a statement of profitability of DANJAUR Project.</p> <p>From the referred WPs, one cannot adequately conclude as to the</p>

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	<p>appropriateness and adequacy of the amount of revenue recognized by the company and cannot in any way be treated as a substitute for the verification of contract and sub-contract copies, copies of sale agreements or independent engineer reports, determination of percentage of completion of the respective projects, cost sheets of the respective projects, any physical verification report by the management or the ET and the basis for ascertaining and evaluating the revenue as per the policy of the company and the requirements of Ind AS 11. The audit procedures applied and the conclusions reached by the ET on the above WPs are also not traceable</p>
C 7.1 Pg 386-391	<p>The WP contains projections of cost & area, details of projected eligible revenue and details of projected sale revenue of Real Estate Project</p> <p>From the referred WPs, one cannot adequately conclude as to the appropriateness and adequacy of the amount of revenue recognized by the company and cannot in any</p>

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	<p>way be treated as a substitute for the verification of contract and sub-contract copies, copies of sale agreements or independent engineer reports, determination of percentage of completion of the respective projects, cost sheets of the respective projects, any physical verification report by the management or the ET and the basis for ascertaining and evaluating the revenue as per the policy of the company and the requirements of Ind AS 11. The audit procedures applied and the conclusions reached by the ET on the above WPs are also not traceable</p>
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- c. The Audit Firm has provided a table explaining the differences between Note 20.1 and Note 48 of Annual Report with respect to revenue from Power division and Note 20.2 and Note 49 of the Annual Report with respect to revenue from Hotel division.

NFRA notes that there are no WP references made by the Audit Firm in support of their submissions made and hence, these responses are without any basis and are not acceptable and would be considered as an afterthought. The Audit Firm has not submitted any of its objections on the NFRAs observations made in the following matters and hence, all the observations of NFRA made in its PFC stands proved. NFRA has observed that the Audit Firm has failed to:

1. Verify the basis for estimation of the cost of the project and the basis of recognition of the revenue and document the same, as required by Para 23 of SA 540.

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2. Perform audit procedures as required by Para 8(c), 17, 18, 19, 20 and 21 of SA 540. The ET had just relied upon the management provided documents without performing any audit procedures.
 3. Comply with the requirements of SA 540, which required them to document their conclusions about the reasonableness of the accounting estimates and indicators of possible management bias, if any.
- d. The Audit Firm has stated that WP C 7.4 Pg 78 contains the details of captive consumption of power among various units of JAL. For power sales made to other parties, the Audit Firm has referred to WP C 7.4 Pg 47.

NFRA has re-examined the referred WPs in detail and our observations are as follows. WP C 7.4 Pg 47 contains power units sold per month beginning from April 2017 till March 2018, per unit rate and the total amount of power sold to KFCL. The referred WP is a statement provided by the Management to the ET. This WP does not provide any details of the audit procedures applied and the conclusions reached by the ET after performing the audit procedures, if any. Hence, NFRA reiterates its observations made in the PFC i.e., the Audit Firm had failed to obtain sufficient appropriate audit evidence as required by Para 6, 7 & para 8 of SA 500 with respect to their verification of sale of power and also failed to evaluate the company's compliance with the requirements of Para 14 of Ind AS 18.

- e. With respect to NFRA's observations made on Hotel division, the Audit Firm has not submitted any of its objections and hence, all the observations of NFRA made in its PFC stands proved. NFRA has observed that:
1. There were no WPs traceable in the audit file which explained the ET's evaluation of revenue from Hotel division as required by Technical Guide on Audit in Hotel Industry to obtain sufficient appropriate audit evidence.
 2. Hence, ET had failed to comply with the requirements of Para 6, 7 and 8 of SA 500 and the requirements of Technical Guide on Audit in Hotel Industry.
- f. Therefore, NFRA concludes that the Audit Firm has:
- 1) Not reported material misstatements in financial statements;
 - 2) Not carried out the audit according to Standards on Auditing and Technical Guide on Audit in Hotel Industry;
 - 3) Not maintained professional skepticism, professional competence and due care and other ethical requirements during the audit;
 - 4) Not ensured compliance with the provisions of the Companies Act, 2013.

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15.4 In communication dated 14th June 2021 the Audit Firm has submitted its response to the DAQRR dt. 30th March 2021 issued by NFRA, as follows:

1. "Construction business:

As stated in the reply to NFRA's prima-facie comments dated 28th Nov 2020 ET verified that there is an increase in revenue of construction business by 40%, with a corresponding increase of 31% in direct construction cost, 2% marginal decline in employment cost and 79% steep decline in finance costs resulting in overall cost decline of Construction business which was explained in detail in the reply to NFRA's prima-facie comments.

Analytical Procedure document was prepared by the ET and ET compared the financial statements for the financial year 2017-18 with financial year 2016-17. During preparation of this analytical procedure document ET had conduct in details verification of documents of the company. It is itself the evidence that ET had examined the records of the company. ET had documented Analytical Procedure document and he discussed this document with concerned staff, officers of the company time to time and at the end with CFO of the Company.

ET had verified the company's documents and then record the explanation in brief on the deviation in Analytical Procedure document.

2. Real estate business:

As stated in the reply to NFRA's prima-facie comments dated 28th Nov 2020 ET verified that Company is also engaged in the Real Estate business in which sales for Land and Sales of Building is the ordinary business activity of the Company. ET verified the revenue of real estate business in line with the Ind AS 18 and accounting policy of the company as stated in the reply to NFRA's prima-facie comments.

In case of Land sales to Yamuna Expressway Tolling Limited (YETL), JAL got advance amounting to Rs. 600 Crores in Financial Year 2016-17 and showing Other Payable to Related Parties in the statement of financial statements. In the financial year 2017-18 JAL sold a portion of land to YETL at the rate of 600 Crores and booked its revenue as the sales of land is the normal business transaction of JAL. Further JAL also reduced its inventory as explained in earlier reply and charge the same in the statement of profit and loss. Accordingly, JAL has not overstated its profit as well as revenue and doing correct treatment in the statement of profit and loss.

In case of Debt Assets Swap JAL loan liability has been reduced as consideration of Revenue and accordingly JAL has booked its revenue and also reduced its inventory i.e., land booked under PUD in the financial statements by charging the sale in the statement of profit and loss as explained in earlier reply.

The explanation provided in earlier reply itself the evidence that ET had examined the records of the company. ET had discussed this matter with concerned staff, officers of the company and at the end with CFO of the Company.

There may be some lapses on the ET part regarding documentation as mentioned by NFRA however, ET had verified the company's documents.

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3. *Explanation regarding difference between Amount as per WP Pg. 107 of A3.1, 2, 3 and Amount as per Annual Report Section Segment Information:*

ET has explained each difference as was observed by NFRA in its reply to NFRA's prima-facie comments dated 28th Nov 2020. These differences can be explained only if someone having knowledge about the company's working and it itself shows that ET had the knowledge of company's financials. As such it can't say that ET had not conducted any audit procedure during audit of the Company.

4. *Regarding Power Revenue:*

ET has already explained about power revenue in the reply to NFRA's prima-facie comments dated 28th Nov 2020. ET verified that power sold to KFCL with company's documents and documented a summary of units sold on monthly basis with computation of revenue. ET also explained the relevance of WP C7.4 Page 78 which shows the captive consumption of electricity which has nil effect on the statement of Profit and Loss.

The above document itself evidence that ET had examined the records of the company. ET had discussed this matter with concerned staff, officers of the company and at the end with CFO of the Company. ET had verified the company's documents."

15.5 The Audit Firm's responses dated 14th June 2021, to the NFRA DAQRR observations, have been examined and NFRA's observations thereon are as follows:

- a. NFRA notes that the Audit Firm has referred to WP 'C7.4 Page 78' which was exactly the same WP that was reviewed by NFRA while framing its detailed DAQRR report. The Audit Firm has not provided references to any new WPs or any related audit evidence in support of their contentions made in [Para 15.4](#) above. Without prejudice to this, NFRA has perused the Audit Firm's response on its merit, if any.
- b. The submissions made by the Audit Firm in [Para 15.4](#) above are the very same contentions made by them in their response to PFC and these have been examined in great detail by NFRA while framing its DAQRR observations in [Para 15.3](#). For the sake of brevity, NFRA has not reproduced its response and has only provided reference to specific part of [Para 15.3](#).
- c. The Audit Firm's contentions made in [Para 15.4 1.](#) above "ET had documented Analytical Procedure document and he discussed this document with concerned staff, officers of the company time to time and at the end with CFO of the Company." are not acceptable as there are no WP references made by the Audit Firm in support of their contentions made and hence, these responses are without any basis and are not acceptable and would be considered as an afterthought.
- d. The Audit Firm's contentions made in [15.4 2.](#) above "In case of Land sales to Yamuna Expressway Tolling Limited (YETL), JAL got advance amounting to Rs. 600 Crores in

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Financial Year 2016-17 and showing Other Payable to Related Parties in the statement of financial statements. In the financial year 2017-18 JAL sold a portion of land to YETL at the rate of 600 Crores and booked its revenue as the sales of land is the normal business transaction of JAL. Further JAL also reduced its inventory as explained in earlier reply and charge the same in the statement of profit and loss. Accordingly, JAL has not overstated its profit as well as revenue and doing correct treatment in the statement of profit and loss. In case of Debt Assets Swap JAL loan liability has been reduced as consideration of Revenue and accordingly JAL has booked its revenue and also reduced its inventory i.e., land booked under PUD in the financial statements by charging the sale in the statement of profit and loss as explained in earlier reply.” are not acceptable as there are no WP references made by the Audit Firm in support of their contentions made and hence, these responses are without any basis and are not acceptable and would be considered as an afterthought.

- e. The Audit Firm’s contentions made in [Para 15.4 3.](#) above “ET has explained each difference as was observed by NFRA in its reply to NFRA’s prima-facie comments dated 28th Nov 2020. These differences can be explained only if someone having knowledge about the company’s working and it itself shows that ET had the knowledge of company’s financials.” are completely baseless and are not acceptable because of the reasons stated in [Para 15.3 c\)](#) above.*
- f. The Audit Firm’s contentions made in [Para 15.4 4.](#) above “ET verified that power sold to KFCL with company’s documents and documented a summary of units sold on monthly basis with computation of revenue. ET also explained the relevance of WP C7.4 Page 78 which shows the captive consumption of electricity which has nil effect on the statement of Profit and Loss.” are completely baseless and are not acceptable because of the reasons stated in [Para 15.3 d\)](#) above.*

15.6 Therefore, NFRA concludes that the Audit Firm has:

- a. Not exercised due diligence and has been grossly negligent in the conduct of their professional duties.
- b. Failed to obtain sufficient information which is necessary for expression of an opinion, or its exceptions are sufficiently material to negate the expression of an opinion.
- c. Failed to invite attention to a material departure from the generally accepted procedure of audit applicable to the circumstances.
- d. Not ensured compliance with the provisions of the Companies Act, 2013.

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16. GOING CONCERN

16.1 Based on response of the Audit Firm, to the NFRA's questionnaire dated 30th September 2019, NFRA had conveyed the following prima facie conclusions on 30th September 2020

- a) NFRA had noted from the Audit Files pertaining to Going Concern Assessment that **there was no record in the Audit File of projected cash flows prepared by the management.** Needless to mention, a projected cash flow statement is an absolutely essential element and starting point of evaluation of any going concern assumption. Para 10 of SA 570 requires the auditor to discuss with management the basis for intended use of the going concern basis of accounting and inquire of management whether events or conditions exist that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern. However, **no evidence from Audit File is produced to show that the auditor has obtained the management's assessment of going concern basis of accounting or for any discussions made with the management as required by Para 10 of SA 570.** Therefore, the Audit Firm has failed to examine the projected cash flows of the Company for a minimum period of twelve months from the date of Financial Statements, rendering the entire assessment of going concern meaningless as there is no credible basis against which the management's assumptions could be evaluated.
- b) Without prejudice to what has been stated above, NFRA had examined the Audit File pertaining to the Audit Firm's work done on Going Concern and had noted the following serious lapses in the Audit Firm's analysis as to whether a material uncertainty exists in respect of events or conditions that may cast significant doubt about the entity's ability to continue as a going concern.
 - i) One of the requirements, when performing risk assessment procedures under SA 315, is to assess whether there are events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. In doing so, the Audit Firm shall determine whether management has already performed a preliminary assessment of the entity's ability to continue as a going concern. NFRA had noted from the working papers referred by the Audit Firm that **the evaluation of the management's assessment of going concern assumption, as part of Audit Firm's assessment of going concern, was not done.**
 - ii) Further, NFRA noted from the Financial statements and the WPs from the Audit File that:
 - a. The impact of financial exposure (Rs. 2,173.18 Cr) of litigations with respect to JIL on the overall net worth of the standalone financial

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statements is both material and pervasive, which further raises serious doubts on the company's ability to continue as a Going concern.

- b. The company was facing huge liquidity issues which is clearly evident from the fact that it has entered into Debt Restructuring Plan with its lenders to restructure the interest and the debts burdens from its financial statements.
- c. In WP A1 Pg. No. 114 ('Annexure-II Updation of RBI Guidelines and Hon'ble Supreme Court Order'), Management has noted that "Hon'ble Supreme Court vide its order dated 09th August, 2018 allowed RBI to take JAL to NCLT. ICICI Bank on the directions of RBI has filed an application with NCLT Allahabad for initiating IBC proceedings. Company is contesting and explaining status with respect to implementation of Scheme as approved by all lenders." This information should have prompted the ET to inquire from the management whether the legal recourses against the company may cast significant doubt on the entity's ability to continue as a going concern. However, there is no WP which explains the inquiries made, if any, by the ET to management in this regard.

These indicators, apparent from the financial statements of the Company, should have been enough to prompt the ET to call for the cash flow projections over the next 5 years with immediate cash flows for at least twelve months, profit and other relevant forecasts of the management, in order to form an opinion on the going concern assumption.

- c) The Audit Firm in their response to NFRA Query C) 1.3 (ii) of the Questionnaire, had stated that "*At the time of planning as well as during the course of audit, ET has evaluated issues relating to the Going Concern and liquidity of the company.*" However, Audit Firm had not referred to any WP in their response to NFRA query which is not acceptable and construed as an attempt to mislead.
- d) There is no evidence of any analysis that was carried out by the Audit Firm and also there is no accompanying evidence to support the management assumptions. In NFRA's opinion, there were strong grounds to doubt the Going Concern assumptions due to the reasons stated in Para 15.1 b) above.
- e) Based on the observations noted above, NFRA has prima facie concluded that the Audit Firm is found to have:
 - i. Failed to report a material misstatement known to them to appear in a financial statement with which they are concerned in a professional capacity

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- ii. Not exercised due diligence, or have been grossly negligent in the conduct of their professional duties
- iii. Failed to obtain sufficient information which is necessary for expression of an opinion or its exceptions are sufficiently material to negate the expression of an opinion
- iv. Failed to invite attention to a material departure from the generally accepted procedure of audit applicable to the circumstances.
- v. Failed to conduct Audit in accordance with the requirements of Standards on Auditing.

16.2 The Audit Firm in its reply to NFRA's prima-facie comments dated 28th Nov 2020, quoted Para A3 of SA 570 (Revised), indicating reference to events or conditions that may cast significant doubt on entity's ability to continue as going concern and asserted that *"In case of JAL, ET considers whether events or conditions exist that may cast significant doubt on the entity's ability to continue as a going concern. Management did not perform a preliminary assessment of the entity's ability to continue as going concern therefore, ET had a discussion with TCWG for basis for going concern and evaluated that there were events or conditions that existing at time of conducting audit that cast significant doubt on entity's ability to going concern. JAL's assessment of going concern is validated by auditor's assessment of the subject matter in Sr. No C of Financial Statement Review Checklist file A3.1 Pg. No. 33, some of the factors instrumental in considering the entity to continue as going concern are as below*

- i. *Entity is not in overall net liability position as at 31 March 2018 i.e. Net worth of the company is Positive.*
- ii. *Company entered into Master restructuring agreement for its debt with banks wherein banks have aligned their debts into below structure for easy and sustainable servicing of the debts hence paving a way for future continuity of the business*
- iii. *One part of the debt was settled by selling off the cement business to Ultratech*
- iv. *A part of the debt was attuned to identified assets of the company which were segregated and to be transfer to a new SPV for which NCLT approval is pending.*
- v. *Remaining part of the debt was considered as sustainable debt and remain with the company and the banks reduced the rate of interest for this portion of the debt to 9.5% starting 1 April 2016 hence maintaining an adequacy of the company to pay off its liability*
- vi. *In the light of Master restructuring agreement leading to positivity to future continuity of business, there was no trigger for having the entity into going concern issues*
- vii. *There was no management's intention to wind up the operations of the company*
- viii. *There was no loss of key management in FY 2018*

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- ix. *There was no loss of market, key customers or major suppliers of the company*
- x. *There were no labour difficulties or shortage of raw material etc supplies to hinder any operations of the company*
- xi. *For all the litigations going on in the company, JAL has adequately deposited the security or bank guarantee as finalized by the respective Court orders hence there is no inability or likely inability by the company to service its litigations in case those are settled against the company.*
- xii. *The cash from operations as per cash flow of FY 2018 were positive hence showing a favourable cash position of the company.*
- xiii. *The company was able to negotiate a good interest reduction deal with the banks helping it generate.*
- xiv. *The impact of litigations/disputed assets of the company was not pervasive as explained in Issue 1 and Issue 10 of this document.*

In light of above factors, the audit firm assess that there is not a material issue on going concern for the future business of the entity.”

16.3 NFRA had examined the above contentions of the Audit Firm, received in response to above noted NFRA’s PFC, and had concluded as follows in its DAQRR dated 30th March 2021:

- a. NFRA notes that the Audit Firm has accepted that the Company “***did not perform a preliminary assessment of the entity's ability to continue as going concern***” (emphasis added), even though Para 25 of Ind AS 1, inter-alia, states that when preparing financial statements, **management shall make an assessment** of an entity’s ability to continue as a going concern. Clearly the Company had failed to meet the requirement of Para 25 of Ind AS 1 and the Audit Firm was required to discuss with management the basis for the intended use of the going concern basis of accounting and inquire of management whether events or conditions exist that, individually or collectively, may cast significant doubt on the entity’s ability to continue as a going concern (Para 10 (b) of SA 570).
- b. In its reply to the PFC, the Audit Firm has stated that “*ET had a discussion with TCWG for basis for going concern*”. However, NFRA notes that the Audit Firm failed to provide reference to any WP to substantiate their assertion. There are no WPs in the Audit File whereby a discussion with the stated TCWG or conclusion drawn from this discussion are documented by the Audit Firm. Therefore, in the absence of any audit evidence corroborating that the Audit Firm had discussed and inquired from the management, for using going concern basis of accounting, the assertion can only be considered as an afterthought and is not acceptable.

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- c. Further, NFRA notes that the Audit Firm has also stated that it had evaluated that there were events or conditions that existing at time of conducting audit that cast significant doubt on entity's ability to going concern. Para 16 of SA 570 states that *“If events or conditions have been identified that may cast significant doubt on the entity’s ability to continue as a going concern, the auditor shall obtain sufficient appropriate audit evidence to determine whether or not a material uncertainty exists related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern (hereinafter referred to as “material uncertainty”) through performing additional audit procedures, including consideration of mitigating factors. These procedures shall include:*
- i. *Where management has not yet performed an assessment of the entity’s ability to continue as a going concern, **requesting management to make its assessment.***
 - ii. ***Evaluating management’s plans** for future actions in relation to its going concern assessment, whether the outcome of these plans is likely to improve the situation and whether management’s plans are feasible in the circumstances.*
 - iii. *Where the entity has prepared a cash flow forecast, and **analysis of the forecast is a significant factor** in considering the future outcome of events or conditions in the evaluation of **management’s** plans for future actions:*
 - a. *Evaluating the reliability of the underlying data generated to prepare the forecast; and*
 - b. *Determining whether there is adequate support for the assumptions underlying the forecast.*
 - iv. *Considering whether any additional facts or information have become available since the date on which management made its assessment.*
 - v. ***Requesting written representations from management** and, where appropriate, those charged with governance, regarding their plans for future actions and the feasibility of these plans.” (Emphasis added)*
- d. Therefore, on identification of events or conditions that cast significant doubt on entity's ability as going concern, the Audit Firm was required to comply with requirements of Para 16 of SA 570 (revised). However, NFRA notes that the Audit Firm has failed to obtain sufficient appropriate audit evidence as enumerated in Para 16 of SA 570 (revised). There is no audit evidence referred or traceable in the audit file, whereby the Audit Firm had requested the management to make going concern assessment, evaluated management’s plans for future actions in relation to its going

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concern assessment. **The Audit Firm did not even obtain the projected cash flows prepared by the management** that was an absolutely essential element and a starting point of evaluation of any going concern assumption.

- e. NFRA notes that the Audit Firm has referred to a “Risk Assessment Procedures checklist” that was prepared in accordance with Para A3 of SA 570 (WP–A3.1 pg 33). As part of this checklist, CA Puneet Kumar Agarwal (ET member) has stated various comments for respective financial and operating indicators although there are no references to the audit procedures/basis for such comments. NFRA notes that in majority of the statements, CA Puneet Kumar Agarwal has simple stated “*No*” with no further details. Many of the remaining comments are completely inconclusive and fails to provide the exact quantum of impact. For example, to statement stating “*Non Compliance with capital or other statutory requirements*” CA Puneet Kumar Agarwal has stated “*No Such case found except some statutory dues are delay for payment*”. The quantum and the reasons for such delays and if there is an impact on the going concern is nowhere stated. Further, even though the Audit Firm has stated that the subject matters related to issues including adequate deposit of the security for all the litigations and impact of litigations, these issue did not find any place in the going concern checklist prepared by the Audit Firm. Thus, these are considered as an afterthought of the Audit Firm. In fact, to a statement that “*Pending Legal Proceedings against the entity that may, if successful, result in judgments that could affect the going concern*”, CA Puneet Kumar Agarwal has stated that “*No Such case found*”. In light of the legal issues discussed in the Independent Auditor’s Report and EOM sections of this DAQRR including impact of financial exposure of litigations with respect to JIL on the overall net worth of JAL’s SFS, huge liquidity issue that were evident since the Company had entered into Debt Restructuring Plan with its lenders to restructure the interest and the debts burdens from its financial statements, NFRA concludes that this statement clearly indicates lack of due diligence on part of the engagement team in preparing these checklists.

It is therefore evident that neither the management of the Company had made **an assessment** of the entity’s ability to continue as a going concern nor had the Audit Firm requested management to conduct an assessment. In absence of any such assessment in performance of its responsibilities as required by SA 570 (revised), the audit firm failed in its professional duties in exercising due diligence on such an important matter. As stated by NFRA in PFC, there were strong grounds to doubt the going concern assumption. Despite these indicators, the Audit Firm had failed to consider them

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altogether for evaluating the entity's ability to continue as a going concern. These indicators, as apparent from the financial statements of the Company, should have been enough to prompt the ET to call for the cash flow projections over the next 5 years with immediate cash flows for at least twelve months in order to form an opinion on the going concern assumption.

- f. In its PFC, NFRA had stated that based on information available in the WP A1 Pg. No. 114 that "*Hon'ble Supreme Court vide its order dated 09th August, 2018 allowed RBI to take JAL to NCLT. ICICI Bank on the directions of RBI has filed an application with NCLT Allahabad for initiating IBC proceedings. Company is contesting and explaining status with respect to implementation of Scheme as approved by all lenders.*" The Audit Firm was required to inquire from the management whether the legal recourses against the company may cast significant doubt on the entity's ability to continue as a going concern. However, there was no WP which explained the inquiries made, if any, by the ET to management in this regard.

In response to NFRA's PFC, the Audit Firm in its reply has stated that "*Document in which RBI directions for taking the JAL into IBC dated 09.08.2018 was received for the quarterly review for the quarter ended on 30.06.2020 (sic) and mistakenly put in the audit file of 31.03.2020. (sic)*" NFRA notes that this statement from the Audit Firm in itself indicates gross negligence as there should be no tampering (deletion/updating/modification) after the completion of administrative process (that is not more than 60 days) of assembling the audit file without appropriate documentation of the specific reason for making them and the person and the time at which such changes were made (refer section on Audit Documentation of the DAQRR for detailed comments). Furthermore, Para 10 of SA 560 clearly states that "*when, after the date of the auditor's report but before the date the financial statements are issued, a fact becomes known to the auditor that, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report, the auditor shall*

- i. Discuss the matter with management and, where appropriate, those charged with governance.*
- ii. Determine whether the financial statements need amendment and, if so*
- iii. Inquire how management intends to address the matter in the financial statements."*

However, the Audit Firm had failed to comply with the requirements of SA 560 and did not obtain sufficient appropriate audit evidence to determine whether there is an

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impact on the going concern of the Company and financial statements need amendment.

- g. Therefore, NFRA concludes that the Audit Firm has:
- i) Not exercised due diligence and has been grossly negligent in the conduct of their professional duties.
 - ii) Failed to obtain sufficient information which is necessary for expression of an opinion or its exceptions are sufficiently material to negate the expression of an opinion
 - iii) Failed to invite attention to a material departure from the generally accepted procedure of audit applicable to the circumstances
 - iv) Failed to conduct Audit in accordance with the requirements of Standards on Auditing.

16.4 In communication dated 14th June 2021 the Audit Firm has submitted its response to the DAQRR dt. 30th March 2021 issued by NFRA, as follows:

“As stated in the reply to NFRA’s prima-facie comments dated 28th Nov 2020 ET had a discussion with TCWG for basis for going concern and evaluated that there were events or conditions that existing at time of conducting audit that cast significant doubt on entity’s ability to going concern. JAL’s assessment of going concern is validated by auditor’s assessment of the subject matter in Sr. No C of Financial Statement Review Checklist file A3.1 Pg. No. 33.

Further ET also reviewed Information Memorandum presented by the company which was prepared for restructuring of debts (Restructuring of loan explained in the reply to NFRA’s prima-facie comments) and it includes cash flow projections upto the FY 2036 which were not kept in the audit file by Audit firm.

In light of above factors, the audit firm assess that there is not a material issue on going concern for the future business of the entity. Also, there was no material disclosure by the management affecting its going concern assumption for the events that occurred after the balance sheet date till the signing of audit report. Document in which RBI directions for taking the JAL into IBC dated 09.08.2018 was received for the quarterly review for the quarter ended on 30.06.2020 and mistakenly put in the audit file of 31.03.2020.

The above discussion itself evidence that ET had conducted going concern assessment of the company. ET had verified the company’s documents.”

16.5 The Audit Firm’s responses dated 14th June 2021, to the NFRA DAQRR observations, have been examined and NFRA’s observations thereon are as follows:

- a. NFRA notes that the Audit Firm has referred to WP ‘A3.1 pg No. 33 ‘which was exactly the same WP that was reviewed by NFRA while framing its detailed DAQRR report. The Audit Firm has not provided references to any new WPs or any related audit evidence in support of their contentions made in [Para 16.4](#) above. Without prejudice to this, NFRA has perused the Audit Firm’s response on its merit, if any.

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- b. The submissions made by the Audit Firm in [Para 16.4](#) above are the very same contentions made by them in their response to PFC and these have been examined in great detail by NFRA while framing its DAQRR observations in [Para 16.3](#). For the sake of brevity, NFRA has not reproduced its response and has only provided reference to specific part of [Para 16.3](#).
- c. The Audit Firm's contentions "*ET had a discussion with TCWG for basis for going concern and evaluated that there were events or conditions that existing at time of conducting audit that cast significant doubt on entity's ability to going concern. JAL's assessment of going concern is validated by auditor's assessment of the subject matter in Sr. No C of Financial Statement Review Checklist file A3.1 Pg. No. 33.*" are not acceptable because of the reasons stated in [Para 16.3 e\)](#) above. Further, it was also noted in [Para 16.3 e\)](#) that neither the management of the Company had made **an assessment** of the entity's ability to continue as a going concern nor had the Audit Firm requested management to conduct an assessment and hence, the audit firm has failed in its professional duties in exercising due diligence on such an important matter.
- d. The Audit Firm's contentions "*ET also reviewed Information Memorandum presented by the company which was prepared for restructuring of debts (Restructuring of loan explained in the reply to NFRA's prima-facie comments) and it includes cash flow projections upto the FY 2036 which were not kept in the audit file by Audit firm*" are not acceptable because of the fact that the Audit Firm itself admits that they had not documented the work, which it claims to have done. Hence, these contentions shall be treated only as an afterthought.
- e. The Audit Firm's contentions "*the audit firm assess that there is not a material issue on going concern for the future business of the entity*" are completely baseless and are not acceptable because of the reasons stated in [Para 16.3 f\)](#) above.
- f. Hence, The Audit Firm has failed to appropriately and sufficiently evaluate the use of going concern basis of accounting by the Management and thus failed to note the implications thereon in the Auditor's Report.

16.6 Therefore, NFRA concludes that the Audit Firm has:

- a. Not exercised due diligence and has been grossly negligent in the conduct of their professional duties.
- b. Failed to obtain sufficient information which is necessary for expression of an opinion, or its exceptions are sufficiently material to negate the expression of an opinion
- c. Failed to invite attention to a material departure from the generally accepted procedure of audit applicable to the circumstances
- d. Not ensured compliance with the provisions of the Companies Act, 2013.

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17. RELATED PARTY TRANSACTIONS

17.1 Based on response of the Audit Firm to the NFRA’s questionnaire dated 30th September 2019, NFRA had conveyed the following prima facie conclusions on 30th September 2020:

- a. NFRA observed that the Audit Firm has, in compliance to Clause 3(xiii) of the Companies (Auditor’s Report) Order, 2016, in Annexure to the Independent Auditors’ Report on the Company’s standalone financial statements for FY 2017-18, reported that *“According to the information and explanations given to us and based on our examination of the records of the Company, transactions with the related parties are in compliance with Sections 177 and 188 of the Act where applicable and details of such transactions have been disclosed in the Standalone Ind AS financial statements as required by the applicable accounting standards”*. Further, the Company in Director’s Report for FY 2017-18 stated that, *“The particulars as per the prescribed Format (AOC-2) are enclosed as Annexure 5. All the related party transactions during the year were on an arm’s length basis and in ordinary course of business. The Related Party Disclosures as per IND AS 24 have been made in Note No. 48 of the Financial Statements”*. Form - AOC 2 (for FY 2017-18) notes that there have been
 1. “Nil” contracts or arrangements or transactions not at Arm’s Length Basis;
 2. “Nil” material contracts or arrangement or transactions at arm’s length basis.
- b. However, NFRA concluded that the Audit Firm had failed to obtain sufficient appropriate audit evidence to appropriately report under clause 3 (xiii) of the CARO, 2016. The Audit Firm was grossly negligent in concluding that the transactions with the related parties are in compliance with Sections 177 and 188 of the Companies Act, 2013. Based on the examination of the WP – File A 3.1 Pg. No. 50-84, that was referred by the Audit Firm in response to the NFRA’s questionnaire, and was asserted to contain the extracts from the minutes of the meetings of audit committee for the approval of related party transactions, NFRA noted that the WP, that was arranged very haphazardly, contained multiple duplicate copies of only seven minutes of Audit Committee meetings where the Company had taken prior approvals for related party transactions. Out of these seven approvals, only one approval (dated 09th Sep 2016) that represented just 1% of RPTs with subsidiaries was available in the Audit File.
- c. Further, on perusal of Note No. 48 of the standalone Financial Statements for 2017-18, NFRA noted that ‘Sale of Plot’, categorized under other items, worth Rs. 600 Crores is presented under the transaction with subsidiaries. However, neither had the Audit Firm

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obtained sufficient appropriate audit evidence to conclude that the transaction was in ordinary course of business and at arm's length, nor had it obtained audit committee approval, that was required prior to the transaction either individually or in omnibus manner, as audit evidence to conclude that the transaction was in compliance with section 177 and 188 of the Companies Act, 2013. In response to the NFRA's questionnaire, the Audit Firm had referred to WP – File A 3.1 Pg. No. 37-40, asserting that *“ET had a discussion with the Company Secretary of the Company in relation to the process followed by the Company for identification of the related parties. ET ensured that all the related parties reported by the Company as related parties in the previous year have been covered during the financial year ended 31 March 2018. ET reviewed the minutes of Board meetings & Audit Committee meetings and also checked MBP-1 of all the directors of the Company”*. However, NFRA noted that the WP, simply put, was just an alternate version of Note No.”48” of the Annual Report for 2017-18, wherein the auditor has summated amounts for each type of transaction (Construction, Sale of Cement, Hotel Revenue, Sale of Plot etc.) for the entire set of subsidiaries, associates, other related companies and KMPs and compared to the previous financial year. There was no evidence in the WP that indicated that ET had a discussion with the Company Secretary in relation to compliance with RPTs. The Audit Firm did not even obtain a list of all the related parties or documented the nature of the related party relationships (Para 28 of SA 550). Also, there was no audit evidence to support the Audit Firm's assertion that they have checked MBP-1 of all the Directors of the Company, ITRs of Directors and KMPs of the company or the register prepared by the Company as per the requirements of Section 189 of Companies Act, 2013 (Para 49 (j) of Guidance Note on CARO, 2016).

- d. NFRA also concluded that the Audit Firm had failed to discuss with the management or TCWG any observations related to RPTs as required by Para A6 read with Para 5 of SA 550, even when
1. Facility management services income from subsidiaries increased from Rs. 1.5 Crores in FY 2016-17 to Rs. 19.2 Crores in FY 2017-18, a jump of approximately 1190%, and
 2. Revenue from the Power division, that was entirely recognized from related parties, increased by 44.2%, from Rs. 160.0 Crores in FY 2016-17 to Rs. 231.2 Crores in FY 2017-18. Refer to the revenue recognition section of this PFC for our detailed comments on the revenue from Power division. The stated section also notes discrepancies in the

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revenue recognized from Power division, in the audit file and within the annual report for FY 2017-18 as well.

- e. The Audit Firm had not performed any procedures to confirm the management representation obtained for the related parties, which stated as follows:
1. The related parties as per Ind AS-24 and the transactions with the related parties are mentioned in the Notes to the Accounts, which are true and correct.
 2. Related party transactions are in ordinary course of business and at arm's length.
 3. The Company has not entered into any non-cash transactions with directors or persons connected with them.
- f. Therefore, the Audit Firm was found to have:
1. Failed to obtain sufficient information which is necessary for expression of an opinion or its exceptions are sufficiently material to negate the expression of an opinion;
 2. Not exercised due diligence, and has been grossly negligent in the conduct of their professional duties;
 3. Not maintained professional skepticism, professional competence and due care and other ethical requirements during the audit;
 4. Not carried out the audit according to Standards on Auditing and Guidance Note on CARO, 2016;
 5. Provided a certificate of compliance with the provisions of the Companies Act, 2013 pertaining to RPTs as required under clause 3(xiii) of CARO, 2016 without due diligence and without obtaining sufficient appropriate audit evidence.

17.2 The Audit Firm in its response to NFRA's prima-facie comments, dated 28th Nov 2020, stated that

- a. *“Since the sales of Plot the company to YETL amounting to Rs. 600 Crores is done in the ordinary business transaction and done on arm length basis as explained in Revenue section of this PFC, accordingly as per third proviso of section 188 (1) no approval of shareholder is required for this transaction. Accordingly no violation of section 188 has been done for Point 13.1 of Pg 132 of this PFC.*
- b. *While ET verified the minutes book of the Company it is observed that company has taken Obnimous (sic) Approval but while preparing the extract of Minutes ET has not*

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- included the same. Further there are many cases in which specific approval also taken. ET has included some of these cases in workpaper A3.1 pg 50 to 59, 71, 72 and 83-84.
- c. ET also reviewed MBP-1 of all Directors (not taking copy of the same for WP), Income tax returns of all Directors (submitted in WP but not found in scanned copy of the same).
 - d. List of all KMP's, their family members etc. was screened and matched to the records of company transactions to pull out specific related party transactions.
 - e. Minutes of all board meetings and other meetings held for business purposes were also screened to see if any related party transaction/business is being discussed.
 - f. All the material transactions were traced and scrutinized to see if those related to any of the related parties or group companies other than the ones already disclosed to us by the management, no discrepancy was noted.
 - g. All the market quotations taken by the management for transactions with related party were also seen to understand that those have passed through fair business paradigm of being at arm's length.
 - h. Refer A3.1 pg 50 to 59, 71, 72 and 83-84 for details of related party transactions and its tracing through various transactions.”

17.3 NFRA had examined the above contentions of the Audit Firm, received in response to the above noted NFRA's PFC, and had concluded as follows in its DAQRR dated 30th March 2021:

- a. NFRA notes that the WPs referred 'A3.1 pg 50 to 59, 71, 72 and 83-84' to support its submissions made are exactly the same as referred by NFRA while giving its detailed prima facie conclusions. Nevertheless, NFRA has referred to the WPs and notes as follows

Referred WP	NFRA's Observations
A3.1 pg 50 to 59	<p>Includes extracts of meetings of four individual RPT approvals from the audit committee dated 9th Sep 2016, 14th Nov 2015, 09th Sep 2016 and 01st April 2016. Pages 52 to 56 specifically relate to extracts of audit committee approval (dated 09th Sep 2016) for sub-contracting of work for Varanasi Gorakhpur Section of NH-29 to M/s. Kram Infracon Private Ltd (a related party of Company) and bid letters submitted by M/s. Kram Infracon Private Ltd and C&C Construction Limited.</p> <p>NFRA notes that there are no audit procedures performed or conclusions drawn, noted by the Audit Firm. This WP is simply a collection of audit evidence received for four RPTs from the Company. The audit committee meeting extracts states, for each approval, that the transaction is in ordinary course of business and at arms' length, however no work is performed by</p>

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	the Audit Firm to verify the appropriateness of the basis of such conclusions.
A3.1 pg 71 - 72	Contains extracts of audit committee meeting for approval of RPT with Jaypee Infra Ventures (JIV) on 05 th Aug 2017. It was noted in the minutes that three bids were received for the contracts. NFRA notes that copies of the proposals received are placed on page 83 and 84 by the Audit Firm. However, there is no note of the audit procedures performed by the Audit Firm.
A3.1 pg 83-84	Includes bids proposals from Egis International and Indian Technocrats Limited. However, there is no note of the audit procedures performed by the Audit Firm.

Clearly, the Audit Firm has failed to substantiate its submissions, with any evidence that proves that it;

1. Obtained sufficient information which is necessary for expression of an opinion or its exceptions are sufficiently material to negate the expression of an opinion;
2. Exercised due diligence, and has been grossly negligent in the conduct of their professional duties;
3. Maintained professional skepticism, professional competence and due care and other ethical requirements during the audit;
4. Carried out the audit according to Standards on Auditing and Guidance Note on CARO, 2016;
5. Provided a certificate of compliance with the provisions of the Companies Act, 2013 pertaining to RPTs as required under clause 3(xiii) of CARO, 2016 with due diligence and by obtaining sufficient appropriate audit evidence.

Therefore, NFRA is justified in reiterating its conclusion formed in the PFC. However, notwithstanding the above, NFRA has further examined all the contentions of the Audit Firm in detail.

- b. In reply to NFRA's observations in the PFC, the Audit Firm has asserted that it had reviewed the basis (including the omnibus approval and the MBP-1 of all Directors) for reporting under clause 3 (xiii) of CARO, 2016, but it had not included the same in the Audit File. Clearly, the Audit Firm has implicitly agreed to the NFRA's PFC conclusion that the Audit Firm was grossly negligent in conduct of its professional duties. NFRA notes that the above assertion is without any basis, not just because of the missing audit evidence with regard to audit committee approvals for RPTs (section

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177 of the Companies Act, 2013) or MBP-1 records of the Directors (Para 49 (j) of Guidance Note on CARO, 2016) that the Audit Firm might have verified before reporting under clause 3 (xiii) of CARO, 2016, but because the Audit Firm had failed to prepare audit documentation that is sufficient, to enable an experienced auditor, having no previous connection with the audit, to understand: a) The nature, timing, and extent of the audit procedures performed to comply with the SAs and applicable legal and regulatory requirements; b) The results of the audit procedures performed, and the audit evidence obtained; and c) Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions (Para 8 of SA 230). The Audit Firm has made a complete mockery of the Standards of Auditing and Guidance Note on CARO, 2016 issued by ICAI.

- c. In its PFC, NFRA had noted that the Company had sold a plot to a related party for Rs. 600 Crores. However, the Audit Firm failed to obtain sufficient appropriate audit evidence to conclude that the transaction was in compliance with section 177 and section 188 of the Companies Act, 2013. In its reply, the Audit Firm has asserted that since this was done in the ordinary business transaction and on arm length basis, accordingly as per third proviso of section 188 (1) no approval of shareholder is required for this transaction. Para 24 of SA 550 states that “*When management has made an assertion in the financial statements to the effect that a related party transaction was conducted on terms equivalent to those prevailing in an arm’s length transaction, the auditor shall obtain sufficient appropriate audit evidence about the assertion*” (emphasis added). Para A43 read with Para A44 of SA 550 further states that the Management is responsible for the substantiation of an assertion that a related party transaction was conducted on terms equivalent to those prevailing in an arm’s length transaction. Management’s support for the assertion may include: Comparing the terms of the related party transaction to those of an identical or similar transaction with one or more unrelated parties, engaging an external expert to determine a market value and to confirm market terms and conditions for the transaction, and comparing the terms of the transaction to known market terms for broadly similar transactions on an open market. The Auditor is required to evaluate management’s assertion, which may involve one or more of the following:

1. Considering the appropriateness of management’s process for supporting the assertion.
2. Verifying the source of the internal or external data supporting the assertion, and testing the data to determine their accuracy, completeness and relevance.

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3. Evaluating the reasonableness of any significant assumptions on which the assertion is based.

Para 49 (f) of Guidance Note on CARO, 2016 also requires the Auditor to consider following aspects while performing evaluation of 'ordinary course of business:

1. Whether the transaction is covered in the objects of the company as envisaged in the Memorandum of Association;
2. Whether a transaction is usual or unusual, both from the company and its line of business perspective;
3. Frequency: If a transaction is happening quite frequently over a period of time, it is more likely to be treated as an ordinary course of business. However, the inverse does not necessarily hold true;
4. Whether transaction is taking place at arm's length;
5. Business purpose of the transaction;
6. Whether transaction is done on similar basis with other third parties; and
7. Size and volume of transaction.

However, NFRA notes that the Audit Firm has failed to substantiate its assertion with reference from the WP and has not obtained sufficient appropriate audit evidence to conclude that the transaction was on an arm's length. Therefore, this can be considered only as an afterthought. Further, even in case the Audit Firm had appropriately concluded that section 188 (1) was not applicable, i.e. the transaction was at arms' length and in ordinary course of business, on this transaction, the Audit Firm was required to verify if the transaction was approved by the Audit Committee of the Company, prior to the transaction. In the absence of any audit documentation, NFRA concludes that the reporting under Clause 3 (xiii) of CARO, 2016, specifically with regard to the Rs. 600 Crores Sale of Plot to related party, was without any basis.

- d. In its PFC, NFRA had also provided a few instances, where revenue from related parties had increased significantly, and stated that the Audit Firm did not exercise professional skepticism and did not communicate with the management/TCWG as required by Para A6 read with Para 5 of SA 550. In its reply, the Audit Firm stated that *"In response to Point 17 d) on pg 136 of PFC we state as under:*

1. *Facility Management Service income from subsidiary increased from 1.5 crores to 19.2 crores in the FY 2017-18 as compared to FY 2016-17. ET has questioned on the same while auditing the Facility Management Unit of JAL. ET observed that JAL has charged shared Area income from its related parties from Current as the rate for the*

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same has been final in the FY 2017-18. Accordingly income has been increased in the FY 2017-18.

2. *Revenue from the power division increased from 160 to 231.2 crores in FY 2017-18 as compared to FY 2016-17. ET questioned on the same while auditing the power division and noted that in FY 2017-18 one more power plant got operational and accordingly Revenue from power has been increased (Refer file A3.1 pg 115)”*

NFRA notes that the referred WP – A3.1 pg 115, is part of the analytical procedures performed by the Audit Firm at the planning of the audit and **is not related to RPTs**. The Audit Firm has only noted the reasons for change in the segment wise items of P&L account from the previous year. The observations noted are neither related to RPTs, nor can one conclude anything for these comments. For example, for difference in power division revenue, from previous year, the Audit Firm has noted “Increase in revenue as New Plant commissioned in the mid of the Current Year”. No further audit procedures are either noted or performed.

Therefore, considering that the Audit Firm has failed to provide any WP reference for its assertion on the Facility Management Service, the assertion can be considered only as an afterthought. Further, the assertion of the Audit Firm, with regard to the Power Division, is also construed as without any basis since the referred WP – A3.1 pg 115, simply put, contains a single line reference to information received from the management and does not include any basis for the conclusions or audit procedures performed by the Audit Firm.

- e. Para A5 of SA 230 states that “*Oral explanations by the auditor, on their own, do not represent adequate support for the work auditor performed or conclusions the auditor reached*”. NFRA notes that the assertions made by the Audit Firm that “*List of all KMP’s, their family members etc. was screened and matched*”, “*Minutes of all board meetings and other meetings held for business purposes were also screened to see if any related party transaction/business is being discussed*” and “*All the material transactions were traced and scrutinized to see if those related to any of the related parties or group companies other than the ones already disclosed to us by the management, no discrepancy was noted*” are not supported by any of the WPs in the audit file. The assertions are thus without any basis and can be considered only as an afterthought. Let alone tracing and scrutinizing all the material transactions to see if those are related to any related party, NFRA notes that the Audit Firm has not even

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replied to the NFRA's observation that it had not performed audit procedures to even identify related parties and to understand the nature of the related party relationships.

- f. NFRA also notes that the assertions of the Audit Firm that they had just “**seen**” the market quotations taken by the management with related parties to understand that those have passed through fair business paradigm of being at arm's length and that the responsibility of maintaining records and registers, as required by section 189 (1) is with management of the company, and the Audit Firm in the capacity of auditors only “**asked for such documentation**” and traced the relevant transactions from these sources, without any reference to the audit file and without obtaining sufficient appropriate audit evidence, is a complete mockery of the standards of the auditing. This rather, implicitly, proves the conclusions drawn by NFRA in its PFC.
- g. Para A6 read with Para 5 of SA 550 states that Related parties, by virtue of their ability to exert control or significant influence, may be in a position to exert dominant influence over the entity or its management and hence, an understanding of the entity's related party relationships and transactions is relevant to the auditor's evaluation of whether one or more fraud risk factors are present as required by SA 240 because fraud may be more easily committed through related parties. However, the replies of the Audit Firm, proves that the Audit Firm had failed to consider one or more fraud risk from related party transaction. The Audit Firm had only performed audit procedures, limited to obtaining audit committee approval for few of the transactions and noting the variance for various type of RPTs (Construction, Sale of Cement, Hotel Revenue, Sale of Plot, etc.).

Further, NFRA notes that the Audit Firm did not even obtain the related party transaction policy of the Company as part of the audit documentations and had failed to

1. Obtain a statement containing details of transactions with related parties.
2. Obtain a list of companies, firms or other parties, the particulars of which are required to be entered in the register maintained under section 189 of the Act.
3. Obtain declarations made by the directors in Form MBP-1 i.e., general notice received from a director under Rule 9(1) of The Companies (Meetings of Board and Power) Rules, 2014.
4. Verify the entries made in the register under section 189 with such statement from management and declarations received from directors.

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5. Ascertain the system and procedures of the company to ensure compliance with the provisions of section 177 and 188 of the Act including the assessment of identification of related parties and whether the transaction is at arm's length and basis of such conclusion.
- h. Therefore, NFRA concludes that the Audit firm
1. Failed to obtain sufficient information which is necessary for expression of an opinion or its exceptions are sufficiently material to negate the expression of an opinion;
 2. Not exercised due diligence, and has been grossly negligent in the conduct of their professional duties;
 3. Not maintained professional skepticism, professional competence and due care and other ethical requirements during the audit;
 4. Not carried out the audit according to Standards on Auditing and Guidance Note on CARO, 2016;
 5. Provided a certificate of compliance with the provisions of the Companies Act, 2013 pertaining to RPTs as required under clause 3(xiii) of CARO, 2016 without due diligence and without obtaining sufficient appropriate audit evidence.

17.4 In communication dated 14th June 2021 the Audit Firm has submitted its response to the DAQRR dt. 30th March 2021 issued by NFRA, as follows:

- a. *“As stated in the reply to NFRA’s prima-facie comments dated 28th Nov 2020, ET verified the transaction of sales of plot to YETL with accounting policy and in line with the Company MOA as already explained in reply of Revenue section of the reply to NFRA’s prima-facie comments, the sales of Plot the company to YETL amounting to Rs. 600 Crores is done in the ordinary business transaction and done on arm length basis as explained in Revenue section of this PFC, accordingly as per third proviso of section 188 (1) no approval of shareholder is required for this transaction. Accordingly no violation of section 188 has been done for Point 13.1 of Pg 132 of this PFC.*
- b. *ET has verified Minutes book of the Company, Obnimous Approval, Specific approval, MBP 1 of all Directors, market quotations taken by the management for verification of transaction are on Arm’s length basis, Minutes of all board meetings and other meetings, Statutory register of related party transaction from the company records and also taken copy of Income tax returns of all Directors as already stated in reply to NFRA’s prima-facie comments. There may be some lapses on the ET part regarding*

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documentation as mentioned by NFRA however, ET had verified the company's documents.

- c. Facility Management Service income from subsidiary increased from 1.5 crores to 19.2 crores in the FY 2017-18 as compared to FY 2016-17. ET has questioned on the same while auditing the Facility Management Unit of JAL. ET observed that JAL has charged shared Area income from its related parties from Current as the rate for the same has been final in the FY 2017-18. Accordingly income has been increased in the FY 2017-18.*
- d. Revenue from the power division increased from 160 to 231.2 crores in FY 2016-17. ET questioned on the same while auditing the power division and noted that in FY 2017-18 one more power plant got operational and accordingly Revenue from power has been increased (Refer file A3.1 pg 115). ET done this works while preparing the Analytical Procedure document but has not linked this document with related party transaction. ET had verified this difference as already explained in Revenue Section of this reply.”*

17.5 The Audit Firm's responses dated 14th June 2021, to the NFRA DAQRR observations, have been examined and NFRA's conclusions thereon are as follows:

- a. NFRA notes that the Audit Firm has failed to provide any new WP references or any audit evidence to support its submissions. Hence, these responses are without any basis and are considered only as an afterthought. Without prejudice to this, NFRA has perused the Audit Firm's response on its merit, if any.
- b. NFRA notes that the Audit Firm has not made any rebuttal of NFRA's DAQRR observations/comments. The Audit Firm has repeated the same assertions that it made in reply to NFRA's PFC. The Audit Firm has not given any specific response to NFRA's observations, as noted in [Para 17.3](#) above.
- c. For each of the Audit Firm's response, as quoted in [Para 17.4](#) above, NFRA notes the following:
 1. [Para 17.4.\(a\)](#) – There is no audit evidence available in the audit file to substantiate Audit Firm's assertion that “*YETL amounting to Rs. 600 Crores is done in the ordinary business transaction and done on arm length basis.*”
The Audit Firm had even failed to obtain sufficient appropriate audit evidence to conclude that the transaction was approved by the Audit Committee, while reporting under Clause 3 (xiii) of CARO, 2016.

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2. [Para 17.4.\(b\)](#) – There is no audit evidence available in the audit file to corroborate with the Audit Firm’s assertion.

In fact, the Audit Firm has implicitly accepted all of the NFRA’s conclusions by stating that “*There may be some lapses on the ET part regarding documentation as mentioned by NFRA however, ET had verified the company’s documents.*”

In the absence of audit documentation, i.e. the record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached, NFRA is justified in concluding that no work was indeed done by the Audit Firm and the audit failed to comply with the SAs.

3. [Para 17.4.\(c\)](#) & [17.4.\(d\)](#) – As enumerated in [Para 17.3.\(d\)](#), considering that the Audit Firm has failed to provide any WP reference containing the audit evidence for its assertion on the Facility Management Service, the assertion is considered only as an afterthought. Further, the assertion of the Audit Firm, with regard to the Power Division, is also construed as without any basis since the referred WP – A3.1 pg 115, simply put, contains a single line reference to information received from the management and does not include any procedures performed by them for arriving at the basis for the conclusions.

17.6 Therefore, NFRA concludes that the Audit firm

- a. Failed to obtain sufficient information which is necessary for expression of an opinion or its exceptions are sufficiently material to negate the expression of an opinion;
- b. Not exercised due diligence, and has been grossly negligent in the conduct of their professional duties;
- c. Not maintained professional skepticism, professional competence and due care and other ethical requirements during the audit;
- d. Not carried out the audit according to Standards on Auditing and Guidance Note on CARO, 2016;
- e. Provided a certificate of compliance with the provisions of the Companies Act, 2013 pertaining to RPTs as required under clause 3(xiii) of CARO, 2016 without due diligence and without obtaining sufficient appropriate audit evidence.

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18. EVALUATION OF RISKS OF MATERIAL MISSTATEMENTS (ROMM)

18.1 Based on response of the Audit Firm, to the NFRA’s questionnaire dated 30th September 2019, NFRA had conveyed the following prima facie conclusions on 30th September 2020:

- a. NFRA noted that in majority of the replies, to questions forming part of Section C (Assessment of Risk of Material Misstatement (ROMM), Audit Plan/Strategy, Audit Materiality, Audit Sampling) of the questionnaire, the Audit Firm has not referred to any WPs, even though NFRA demanded every reply with reference to specific WPs forming part of the audit file. NFRA, prima facie did not accept the contentions of the Audit Firm, without reference to the actual work done that was forming part of the audit file.
- b. Notwithstanding the above conclusions, NFRA referred to the Audit File Folder – A 3.1, 2 & 3 that included “Pre-Audit / Audit Planning Working Papers” and “Audit Program”, among other WPs and concluded as follows:
 1. The Audit Firm had failed to perform risk assessment procedures to provide a basis for the identification and assessment of risks of material misstatement at the financial statement and assertion levels (Para 5 of SA 315). The fraud risk and internal controls checklists were merely a compilation of “Yes/No/NA” response and were created towards the end of the audit. The Audit Firm had also noted remarks for a handful of items/questions of the checklist. However, the remarks were not conclusive. No references were noted in the WP that could suggest that the Audit Firm had evaluated the design of controls and determined if the controls were implemented. The Audit Firm failed to meet the requirements of Para 8 of SA 230.
 2. The Audit Firm had failed to obtain an understanding of the relevant industry, regulatory, other external factors, and the nature of the entity (Para 11 of SA 315). The business profile merely included the history of the Company from incorporation to year 2009, along with key managerial personnel and a short description of each of the Company’s segments. The present scenario/environment in which the Company was operating in, or rather the key themes for the Company in 2017-18, including the facts stated below, did not form part of the business profile reviewed by the Audit Firm. The facts, as stated below, that were available in the public domain were also **not noted** by the Audit Firm anywhere at the assertion level.

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3. There were multiple litigations pending against the Company. One of Company's subsidiaries (Jaypee Infratech Limited) was part of the 12 companies against which Reserve Bank of India had directed banks to invoke immediate bankruptcy proceedings under IBC. There was also an ongoing litigation against the said subsidiary with the Supreme Court. Accordingly, in September 2017, Supreme Court had directed the Company (JAL) to deposit Rs. 2,000 Crores.
 4. Net worth of seven subsidiaries, out of total 17 subsidiaries, had already been eroded as at 31st March 2017. These seven subsidiaries included
 - i. Jaypee Assam Cement Limited
 - ii. Jaypee Ganga Infrastructure Corporation Limited
 - iii. Jaypee Infrastructure Development Limited
 - iv. Jaypee Cement Hockey (India) Limited
 - v. Himalyaputra Aviation Limited
 - vi. Jaiprakash Agri Initiatives Company Limited
 - vii. Yamuna Expressway Tolling Limited
 5. Further, the Company had already given its consent for closing/winding up of the operations of its subsidiary, Gujarat Jaypee Cement & Infrastructure Limited.
 - i. The Company in 2017-18 was in the process of huge divestments and debt realignment.
 - ii. Impact of the overall financial exposure of litigations and debt issues were clear indicators of possible impact on the going concern assumption of the Company.
- c. NFRA notes that the WP also included "Cement Sector Analysis Report" and "Real Estate Industry Analysis Report", highlighting the prospects for the respective industries. However, no conclusions that could corroborate the fact that the Audit Firm had drawn any understanding from these reports, specifically with regard to the underlying risk or the environment the Company was operating in, were documented by the Audit Firm. Rather, these reports were only limited to the prospects and exciting times ahead for the industry and were not holistic in nature. NFRA noted that since the Company in itself was facing tremendous headwinds along with issues related to huge debt burden and various litigations, these reports could not have been of any relevance

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to provide as a basis for designing and implementing responses to reduce the assessed risks of material misstatement to an acceptably low level.

- d. No conclusions/observations or any justification, as to how the entire process provided a basis for designing and implementing responses to the assessed risks of material misstatement, was noted by the Audit Firm. The Audit Firm has hence, failed in understanding the entity and its environment.
- e. WP – File A3.1 “Audit Program”, included the entire audit program, including
 - i. The areas of consideration,
 - ii. Extent or scope of the audit procedures
 - iii. The name of the ET team member assigned to the specific area and the name of the reviewer.
- f. However, NFRA noted serious **deficiencies** with the design and subsequent implementation of the audit procedures. The issues are discussed as follows:
 - i. **Revenue Recognition:** Para 26 of SA 240 states that when identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks. Further, Para A139 of SA 315 states that the risks of material misstatement may relate directly to the recording of routine classes of transactions or account balances, and the preparation of reliable financial statements. Such risks may include risks of inaccurate or incomplete processing for routine and significant classes of transactions such as an entity’s revenue, purchases, and cash receipts or cash payments. However, NFRA noted that, although the areas including sales and debtors are listed in the audit program, the Audit Firm had marked the scope of checking of sales and name of the reviewer as “N.A.”. This indicated the casual attitude of the Audit Firm and implies that it had not identified ROMM from revenue recognition. The Audit Firm failed to meet the requirements of Para 26 of SA 240.

The fact that the Audit Firm failed to reduce ROMM in revenue recognition to an acceptably low level is also evident from our conclusions in the PFC on revenue recognition, which has resulted in misstatements of at least Rs. 600 Crores.
 - ii. **Related Party Transactions:** Para A1 of SA 315 clearly indicates that the related party transactions require special audit consideration. Further, Para 49 (j) of the Guidance Note on CARO, 2016, states that the auditor should obtain a list of companies, firms or other parties, the particulars of which are required

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to be entered in the register maintained under section 189 of the Act. However, NFRA noted that the audit procedures for related party transactions as documented in the audit program, were limited to:

1. Comparing related party transactions with previous years.
2. Checking debtors and creditors which might result in unidentified related parties.
3. Obtaining confirmation and review minutes regarding the authorization and approval of transactions with them.
4. Verify market quotations of transactions entered with them.

NFRA's reiterated its observation in the PFC on related party transactions and concluded that the audit firm was grossly negligent, since it based the very premise of its audit procedure entirely on verification of related party transactions by mere comparison with the previous year's transactions. As against the requirements of Para 49 (j) of the Guidance Note on CARO, 2016, the audit firm did not even bother to obtain a list of companies, firms or other parties, the particulars of which are required to be entered in the register maintained under section 189 of the Act.

Further, the Audit Firm even failed to follow the audit procedures that it had laid down in the audit program, since there is no evidence of fact that

- i. The ET had tried to obtain confirmation from related parties, and
- ii. The ET had actually verified market quotations of the related party transactions.

Instead, the Audit Firm simply gave an EOM on the matter of confirmation from related parties. For our detailed observations on this issue, please refer to 'EOM on Non-Current Trade Receivables' section of our PFC.

- iii. **Analytical Procedures:** Para 5 of SA 315 states that, the auditor shall perform risk assessment procedures to provide a basis for the identification and assessment of risks of material misstatement at the financial statement and assertion levels. Risk assessment procedures by themselves, however, do not provide sufficient appropriate audit evidence on which to base the audit opinion. Para 6 of SA 315 states that risk assessment procedures include analytical procedures.

Para A15 of SA 315 states that when such analytical procedures use data aggregated at a high level, the results of those analytical procedures only provide a broad initial indication about whether a material misstatement may

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exist. Accordingly, in such cases, consideration of other information that has been gathered when identifying the risks of material misstatement together with the results of such analytical procedures may assist the auditor in understanding and evaluating the results of the analytical procedures.

Audit Firm on NFRA's query 10.1 and 10.2 of the Questionnaire on the analytical procedures stated that it had performed analytical procedures towards the end of the audit on the final version of the financial statements of the Company. The Audit Firm referred to WP – File A 3.1 Pg. No. 85 & 113-119. In light of the above, NFRA noted that

- a. These procedures were only performed towards the end of the audit and not at assertion level and were in contravention of the requirements of SA 315.
- b. Pg. No. 85 included ratios calculated at a high level i.e. at financial statement level and compared FY 2016-17 with FY 2017-18. Debt to equity, was one such ratio which had improved from negative 41.59 to positive 2.27. There was no documentation of the conclusions or inferences drawn by the Audit Firm. Further, Pg. No. 113-119 noted change in the opening vs closing balance of the items of Profit and Loss Account and Balance Sheet.

Considering the background of the company in b (ii) above and the extent of variation as noted above, the Audit Firm was required to understand the trend, ideally for a period of minimum of 5-10 years, to reach any conclusive opinion, and analyze the ratios and financial statements of FY 2017-18. However, the Audit Firm merely restricted itself to analyzing change in the opening and closing balance. Further, the audit firm did not even use any other information that had been gathered when identifying the ROMM together with the results of analytical procedures.

- iv. **Analysis of Pending Litigations:** NFRA noted that the Audit Firm had also identified analyzing the pending litigation as one of the items in its audit program.

Para A7 of SA 315 suggest that the auditor may also obtain information, or a different perspective in identifying risks of material misstatement, through

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inquiries directed toward in-house legal counsel about matters such as litigation.

The Audit Firm has stated the following in reply to NFRA's query C 7 (a) of the Questionnaire on the insolvency petition filed against JIL, "The supreme court's writ petition was reviewed and various meetings of the ET were held with the management and the legal head of the Company in relation to this matter" and has referred to WP File K 10.1 Pg. No. 1-41.

NFRA noted that the referred WP lists only a copy of the petition filed in the Supreme Court. There are no WPs in the audit file that could suggest that the Audit Firm had actually understood and analyzed

- a. the possible impact or the current status of the litigations.
- b. obtained legal advice from experts on litigation to confirm the chances favoring the Company.

Instead of being skeptic and due diligent, the Audit Firm simply gave EOM on many of those litigations. Refer to the EOM section of this PFC for our detailed views on this.

- v. **Risk Management Policy:** Para A39 of SA 315 states that, a business risk may have an immediate consequence for the risk of material misstatement for classes of transactions, account balances, and disclosures at the assertion level or the financial statement level.

Para 12 of SA 315 requires the auditor to obtain an understanding of internal control relevant to the audit. Para 13 further requires that while obtaining an understanding of controls the auditor shall evaluate the design of those controls and determine whether they have been implemented, by performing procedures in addition to inquiry of the entity's personnel.

Para 20 of SA 315 states that the auditor shall obtain an understanding of control activities relevant to the audit, being those the auditor judges it necessary to understand in order to assess the risks of material misstatement at the assertion level and design further audit procedures responsive to assessed risks.

Para 13 (n) of SA 200 defines control risk as the risk that a misstatement that could occur in an assertion about a class of transaction, account balance or disclosure and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity's internal control.

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In the WP – File A3.1 titled “Risk Management Policy”, the Audit Firm has placed the risk management policy of the Company. The policy categorizes risks into three categories, namely

- a. Strategy Risk
- b. Business Risk
- c. Operational Risk

The policy had also identified various areas for risk mitigation.

However, NFRA noted that the Audit Firm has not documented any conclusions on the use of the said policy to create an understanding of internal control relevant to the audit. Further, no test of control had been documented to understand the design and check if the internal control indeed prevents and correct the ROMM about class of transaction, account balance or disclosure that could have been material. The Audit Firm failed to comply with the requirements of para A39, para 12 and para 20 of SA 315.

- vi. Para 23 of SA 315 states that if the entity has an internal audit function, the auditor shall obtain an understanding of the nature of the internal audit function’s responsibilities, its organizational status, and the activities performed, or to be performed. On perusal of the WP Folder – L titled Internal Audit Reports, NFRA noted that although the Audit Firm had collected the internal audit reports of the Company, it did not document any understanding of the work of the Internal Auditor. It did not even note
 - a. the nature of internal audit.
 - b. the activities performed by internal auditors.
 - c. observations of the internal auditors and if any material deficiencies were highlighted by the internal auditors.
- vii. Para 31 of SA 315 states that the auditor’s assessment of the risks of material misstatement at the assertion level may change during the course of the audit as additional audit evidence is obtained. In circumstances where the auditor obtains audit evidence from performing further audit procedures, or if new information is obtained, either of which is inconsistent with the audit evidence on which the auditor originally based the assessment, the auditor shall revise the assessment and modify the further planned audit procedures accordingly. In light of the section of non-current assets held for sale section of this PFC, NFRA noted that there were sufficient indicators during the course of the audit which should have led to modification of planned audit procedures. The Audit Firm should have revised its assessment of ROMM and included NCA held for

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sale as an area of consideration. However, it is evident from the audit file that the Audit Firm had not revised its assessment of the planned audit procedures. This resulted in material misstatement of at least Rs.407 Crores.

- viii. Para A1 of SA 315, clearly indicates that the appropriateness of management's use of the going concern assumption requires a **special audit consideration** (emphasis added).

However, the Audit Firm did not identify going concern assumption as ROMM and did not design any audit procedures within the audit program (File A 3.1 WP titled – Audit Program).

Further, as also enumerated in our PFC on Going Concern, NFRA noted that there is no record of projected cash flows prepared by the management or any record of the Auditor's discussion with the management regarding the basis for intended use of going concern basis of accounting.

Thus, NFRA concludes that the Audit Firm's identification, assessment and response to Going Concern as a risk, is absolutely untenable with clear violation of the requirements of SA 315.

- g. The Audit Firm has thus been found to have:
- i. Failed to identify and assess the risks of material misstatement through understanding the entity and its environment, including the entity's internal control;
 - ii. Failed to design and implement responses to the assessed risks of material misstatement;
 - iii. Failed to reduce the risk of material misstatement to an acceptably low level.

18.2 The Audit Firm in its response, to NFRA's prima-facie comments, dated 28th Nov 2020, stated that

- a. *“Risk of material misstatement is a function of inherent risk and control risk. Audit is planned in a way that all the financial captions (account heads) are tested for the audit assertions as per SA 200. Inherent risk and control risk were tested for every class of transaction which has material balances and no discrepancy was noted to the results as expected. Separate workpapers were not included for the stated evaluation in the audit file but the risks were traced into test of details done for every financial caption. The only potential risk pulled out from our testing related to litigations on the company under various sections. Specific comments for all the litigations questioned by NFRA are included into respective sections of this document. Further, conclusions drawn from above stated evaluation of the risks was summarized as a part of various*

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checklists. Refer file A3.1 pg 32-33, 120-266, 283- 284 and 285-295 and file A-1 4.1 pg 1 to 251 for checklists. Further ET contention for the checklists of Fraud risk and internal control questionnaire includes conclusive remarks which were gathered after performing risk assessment procedures to provide basis for the identification and assessment of risks of material misstatement at the financial statement and assertion level.

- b. ET had discussed and enquires with management the susceptibility of the company's financial statement to material misstatement while preparing the checklists.*
- c. Due consideration was given to parameters for risk of material misstatements while auditing the various sectors of revenue. Audit sampling per SA 530 was done taking ROMM as base, all the critical (complex/high value/one time contract) cases were sampled in and tested through test of details while doing the audit for revenue. Some document please Refer G8.38 pg 34-35, F8.19 pg 39-41, 47-49, F8.10 pg 66-73, D8.04 Pg 181 to 198.*
- d. List of related parties was taken to corroborate that from last year's file and any new related party that might be a case in current year was traced from the debtor's and creditor's listing. In addition to this, all the material transactions were scrutinized in the light of related party information to ensure the completeness of related party transactions included into the disclosures.*
- e. **While we understand that the documentation of ROMM procedures might not be adequate as referred by NFRA but the procedures were performed to the level of adequacy and professional skepticism.***
- f. Refer respective section for more details on going concern, revenue and related party comments." (emphasis added)*

18.3 NFRA had examined the above contentions of the Audit Firm, received in response to above noted NFRA's PFC, and had concluded as follows in its DAQRR dated 30th March 2021:

- a. NFRA notes that the Audit Firm has failed to provide any due reference to WP whereby it had identified and assessed the risks of material misstatement in understanding the entity and its environment, including the entity's internal control. Para 3 of SA 315 states that the objective of the auditor is to identify and assess the risks of material misstatement, whether due to fraud or error, **at the financial statement and assertion levels**, through understanding the entity and its environment, including the entity's internal control, thereby providing a basis for designing and implementing responses to the assessed risks of material misstatement. This will help the auditor to reduce the risk of material misstatement to an acceptably low level. Para 5 of SA 315 states that

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the auditor **shall** perform risk assessment procedures to provide a basis for the identification and assessment of risks of material misstatement **at the financial statement and assertion levels**. Risk assessment procedures by themselves, however, do not provide sufficient appropriate audit evidence on which to base the audit opinion. However, the Audit Firm has failed to provide any reference to risk assessment procedures performed at the assertion level. The WPs referred by the Audit Firm, details of which are provided below, were only documented at the finalization of the audit. The referred WPs contains various checklists including Checklist on Compliance with SAs, Ind-AS, CARO, and fraud risk and internal controls checklists. However, as noted in the PFC these checklists were mainly a compilation of “Yes/No/NA” response and were created towards the end of the audit. The Audit Firm had also noted remarks for a handful of items/questions of the checklist. However, the remarks were not conclusive. For instance, for a question “*If significant variations between the actual stocks and book stocks are investigated*” the Audit Firm had noted “*Yes–Rectifications Made Where Necessary*”. The Audit Firm did not note any further details of the impact or if the variation indicated any risk of material misstatement. The Audit Firm failed to meet the requirements of Para 8 of SA 230. Nevertheless, without prejudice to its observations, NFRA has re-examined the reference provided, as under:

WP Referred	NFRA’s Observations
A3.1 pg 32-33	<p>The WP contains Financial Statement Review Checklist prepared in 16th May 2018 and reviewed on 17th May 2018. The checklist is defined as part of overall analytical review carried to form an overall conclusion. The Checklist notes the description of analytical procedures, the name of member of ET who performed it, and comments/references. NFRA notes that neither the comments noted are conclusive, nor the checklist or the referenced WP provide sufficient appropriate audit evidence. For example, the Audit Firm has noted that CA Puneet Kumar Agarwal has reviewed trends in important financial statement ratios. However, NFRA notes that the WP does not note the results of the audit procedures performed. The comments section only states “<i>As per Ratio Sheet Attached</i>”. No further details are provided. Even on perusal of the stated “Ratio Sheet”, NFRA notes that :</p> <ol style="list-style-type: none"> a) These procedures were only performed towards the end of the audit and not at assertion level and were in contravention of the requirements of SA 315. b) Ratios are calculated only at a high level i.e. at financial statement level and compared with FY 2016-17. However, there was no documentation of the conclusions or inferences drawn by the Audit Firm. This was even though there was huge variance in a few of those ratios (for example debt to equity,

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	one such ratio, had improved from negative 41.59 to positive 2.27 but there was no documentation of the conclusions or inferences drawn).
A3.1 pg 120-266	<p>The WP contains Checklist on Compliance with SAs and Checklist on Compliance with CARO, 2016. The Checklist on Compliance with SAs is a “Yes/No/N/A” checklist, whereby the ET has marked whether audit procedures are performed for respective paras, along with name of WPs for reference, of each SA. NFRA notes that the many of the WP reference are not available in the audit file. For example, the ET has stated that they had obtained agreement of management that it acknowledges and understands its responsibilities and has referred to WP – Minutes of first meeting with KMP and other officers. However, NFRA could not trace any such WP in the audit file. Further, many of the statements are without any reference to WPs altogether. For examples, ET has stated that they have followed firm’s policy and procedures for dealing with and resolving difference of opinion. In the column of “Yes/No/NA”, the ET has stated YES. However, ET has not provided any reference to audit file. The ET has not even documented as to what were the difference of opinion.</p> <p>Considering the above and the observations in NFRA’s PFC along with conclusions regarding non-compliance with SAs in various sections of this report (DAQRR), NFRA concludes that this checklist was created for mere formality and does not provide sufficient appropriate audit evidence.</p> <p>The Checklist on CARO, that starts from page 220, consists of the CARO report signed by CA R.K.Goel followed by a checklist on each of the reporting requirement on CARO, 2016. NFRA notes that there is not even a single WP reference in this entire checklist. The Audit Firm has simply noted the description of various work procedures and marked them as “Done” / “Yes” / “N/A” along with comments such as “Checked on test basis”, “Checked”, “No material discrepancies found”. There is no documentation of the WP that forms basis of the work performed or the conclusions reached in this checklist. NFRA could not trace any WP with respect to these reporting requirements on CARO, 2016 in the audit file submitted. Further as noted in our section on Related Parties, the Audit Firm has failed to perform any audit procedures in order to appropriately report under Clause (xiii) of CARO, 2016.</p> <p>Therefore, NFRA concludes that the entire reporting under CARO, 2016 is without any basis. The Audit Firm has merely taken information provided by the Company as basis and has not performed any audit procedures to verify the same.</p>
A3.1 pg 283-284 and	Contain Fraud Risk Questionnaire. As noted in the PFC issued by NFRA, the fraud risk and internal controls

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A3.1 pg 285-295	checklists were merely a compilation of “Yes/No/NA” response and were created towards the end of the audit. The Audit Firm had also noted remarks for a handful of items/questions of the checklist. However, the remarks were not conclusive. For instance, for a question “If significant variations between the actual stocks and book stocks are investigated” the Audit Firm had noted “Yes–Rectifications Made Where Necessary”. The Audit Firm did not note any reasons nor the impact for any of the remarks were noted. Also, no references were noted in the WP that could suggest that the Audit Firm had evaluated the design of controls and determined if the controls were implemented. Therefore, the Audit Firm failed to meet the requirements of Para 8 of SA 230.
A-1 4.1 pg 1 to 251	Contains Ind-AS checklist. The checklist is merely a “Yes/No/N/A” checklist with no comments or WP reference. In absence of any comments/WP reference, the checklist does not “ <i>enable an experienced auditor, having no previous connection with the audit, to understand</i> ” (Para 8 of SA 230) the basis of such conclusions.

In light of the above observations, it is evident that the Audit Firm has failed to perform the audit with professional skepticism and has failed to obtain sufficient appropriate audit evidence to reduce the risk of material misstatement to an acceptably low level. The contention of the Audit Firm that “*Further, conclusions drawn from above stated evaluation of the risks was summarized as a part of various checklists. Refer file A3.1 pg 32-33, 120-266, 283- 284 and 285-295 and file A-1 4.1 pg 1 to 251 for checklists. Further ET contention for the checklists of Fraud risk and internal control questionnaire includes conclusive remarks which were gathered after performing risk assessment procedures to provide basis for the identification and assessment of risks of material misstatement at the financial statement and assertion level.*” is without merit. Absence of audit documentation of the audit procedures performed and failure to obtain sufficient appropriate audit evidence, that formed the basis for conclusions drawn in the above referred checklist, proves that the requirement of Para 8 of SA 230 is not met. NFRA notes that there is no audit documentation to even substantiate the assertion of the audit firm that “*ET had discussed and enquires with management the susceptibility of the company's financial statement to material misstatement while preparing the checklists.*” In fact, majority of these checklists are without any basis as there are no WP in the audit file to prove that the Audit Firm had performed audit procedures to conclude the findings noted in these checklists. For example, there is no audit documentation traceable in the audit file that could be considered as the audit procedures performed for reporting under CARO, 2016. NFRA notes that the entire

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reporting on CARO, 2016 is merely based on the CARO checklist (noted in the table above) that does not provide any reference to the audit procedures performed by the Audit Firm to form an opinion on the information provided by the Company. Therefore, in absence of any documentation of the audit procedures performed for reporting under CARO, 2016, **NFRA is justified in concluding that the Audit Firm has been grossly negligent while reporting under CARO, 2016.** The Audit Firm has not obtained sufficient appropriate audit evidence and the reporting is merely on information provided by the Company without any due diligence by the Audit Firm.

- b. Para 10 of SA 315 states that “the engagement partner and other key engagement team members **shall discuss** the susceptibility of the entity’s financial statements to material misstatement, and the application of the applicable financial reporting framework to the entity’s facts and circumstances.” However, NFRA is unable to trace any WP wherein the ET and other key engagement team members had such a discussion. The Audit Firm has failed to meet the requirements of Para 10 of SA 315.
- c. Further, Para 13(n) of SA 200 defines Risk of material misstatement (ROMM) as the risk that financial statements are materially misstated prior to audit. Para A14 of SA 315 states that analytical procedures may help auditor identify the existence of unusual transactions or events, and amounts, ratios, and trends that might indicate matters that have audit implications. Unusual or unexpected relationships that are identified may assist the auditor in identifying risks of material misstatement, especially risks of material misstatements due to fraud. Para 6 of SA 315 states that Risk Assessment Procedures (RAP) **shall** include ‘*analytical procedures*’. On combined reading of the above requirements, one can clearly conclude that Risk Assessment Procedures has to be done prior to the audit to identify and assess ROMM. However, the Audit Firm did not perform risk assessment procedures prior to the audit and has failed to meet the requirements of SA 315.
- d. In its PFC, NFRA has noted that the Audit Firm had failed to comply with the requirements of Para 26 of SA 240 that requires that the auditor while identifying and assessing the risks of material misstatement due to fraud. Further, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions that give rise to such risks. NFRA noted that, although the areas including sales and debtors are listed in the audit program, the Audit Firm had marked the scope of checking of sales and name of the reviewer as “N.A.”. This indicated the casual attitude of the Audit Firm and implies that it had not identified ROMM from revenue recognition.

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In its reply, the Audit Firm asserted that “*Audit sampling per SA 530 was done taking ROMM as base, all the critical (complex/high value/one time contract) cases were sampled in and tested through test of details while doing the audit for revenue. Some document please Refer G8.38 pg 34-35, F8.19 pg 39-41, 47-49, F8.10 pg 66-73, D8.04 Pg 181 to 198.*”. NFRA notes that the documents referred by the Audit Firm are only Journal Voucher copies, Debit Invoice copies, Tax Invoice Copies and annual accounts closing certificates. The said WP does not depict any work that was done by the Audit Firm. Further, NFRA notes that none of the WPs referred, substantiates the Audit Firm’s assertion that “*Audit sampling as per SA 530 was done taking ROMM as base*”. Therefore, this is only considered as an afterthought of the Audit Firm.

Furthermore, NFRA notes that Para 4 of SA 530 states that “*The objective of the auditor when using audit sampling is to **provide a reasonable basis for the auditor to draw conclusions about the population from which the sample is selected.***” (emphasis added). Para 6 to 8 of SA 530 states that

- i. Para 6 – “*When designing an audit sample, the auditor shall consider the purpose of the audit procedure and the characteristics of the population from which the sample will be drawn.*”
- ii. Para 7 – “*The auditor shall determine a sample size sufficient to reduce sampling risk to an acceptably low level.*”
- iii. Para 8 – “*The auditor shall select items for the sample in such a way that each sampling unit in the population has a chance of selection.*”

However, NFRA could not trace any WP that was prepared during the audit to **provide a reasonable basis** to draw conclusions about the population from which the sample is selected. There is no basis for selection of the WP. Looking at the audit WP referred, NFRA notes that one cannot even understand if it contains all the complex/high value/one time contract copies. The assertion of the Audit Firm is without any basis and can be considered only as an afterthought. This is also substantiated since the Audit Firm has failed to reply to NFRA’s observation on the Rs. 600 Crores transaction of sale of plot to YETL that was a high value, a one time transaction (please refer to the section on RPT and Revenue of this DAQRR for further details). Thus, the Audit Firm has failed to perform any audit procedures on this transaction.

- e. Para 10 of SA 240 states that “*The objectives of the auditor are: (a) To identify and assess the risks of material misstatement in the financial statements due to fraud; (b) **To obtain sufficient appropriate audit evidence about the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and (c) To respond appropriately to identified or suspected fraud.***”

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(emphasis added). Para 26 of SA 240 states that “When identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks. Paragraph 47 specifies the documentation required when the auditor concludes that the presumption is not applicable in the circumstances of the engagement and, accordingly, has not identified revenue recognition as a risk of material misstatement due to fraud.” Therefore, it is evident that the Audit Firm was required to presume the risk of material misstatement due to fraud in revenue and actively rebut the identified risk of material misstatement due to fraud to reduce the risk of material misstatement to an acceptably low level. However, NFRA is unable to trace any WP whereby the Audit Firm has identified and evaluated revenue, revenue transactions or assertions that gave rise to risk of fraud. NFRA is also unable to trace any WP that meets the requirements of Para 47 of SA 240, whereby the Audit Firm has concluded the presumption that there is a risk of material misstatement due to fraud related to revenue recognition is not applicable and has documented the reasons for that conclusion. Clearly the Audit Firm has failed to meet the requirements of SA 240.

- f. The assertion of the Audit Firm that *“List of related parties was taken to corroborate that from last year’s file and any new related party that might be a case in current year was traced from the debtor’s and creditor’s listing. In addition to this, all the material transactions were scrutinized in the light of related party information to ensure the completeness of related party transactions included into the disclosures,”* is also without any reference to the audit file. In light of NFRA’s conclusions in the RPT section of this DAQRR, it is thus appropriate to conclude that this assertion is without any basis and only an attempt to mislead NFRA.
- g. In light of the conclusions drawn in the sections on Investments, Revenue, NCA Held for Sale, RPT, Going Concern, along with litigation matters (covered under Independent Auditor’s report), it is being concluded that the Audit Firm has failed to evaluate ROMM and perform audit procedures to reduce the risk of ROMM to an acceptable level.
- h. Further, NFRA notes that the conclusions drawn above are also accepted by the Audit Firm as it failed to rebut the same with appropriate audit evidence and documentation. The Audit Firm has implicitly accepted that it was grossly negligent and has stated that *“While we understand that the **documentation of ROMM procedures might not be adequate as referred by NFRA** but the procedures were performed to the level of adequacy and professional skepticism.”* (emphasis added). In light of the conclusions

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drawn in this section of DAQRR, this assertion can only be considered as an admission that no ROMM was performed by the Audit Firm. The Audit Firm has thus been found to have:

- i. Failed to identify and assess the risks of material misstatement through understanding the entity and its environment, including the entity's internal control;
 - ii. Failed to design and implement responses to the assessed risks of material misstatement.
 - iii. Failed to reduce the risk of material misstatement to an acceptably low level.
- all of which is required by the SAs.

18.4 In communication dated 14th June 2021 the Audit Firm has submitted its response to the DAQRR dt. 30th March 2021 issued by NFRA, as follows:

- a. *“As stated in the reply to NFRA’s prima-facie comments dated 28th Nov 2020, ET has planned in a way that all the financial captions (account heads) are tested for the audit assertions as per SA 200. Inherent risk and control risk were tested for every class of transaction which has material balances and no discrepancy was noted to the results as expected. Separate work papers were not included for the stated evaluation in the audit file but the risks were traced into test of details done for every financial caption. The only potential risk pulled out from our testing related to litigations on the company under various sections. Specific comments for all the litigations questioned by NFRA are included into respective sections of this document. Further, conclusions drawn from above stated evaluation of the risks was summarized as a part of various checklists as referred in earlier reply to NFRA. Further ET contention for the checklists of Fraud risk and internal control questionnaire includes conclusive remarks which were gathered after performing risk assessment procedures to provide basis for the identification and assessment of risks of material misstatement at the financial statement and assertion level.*
- b. *ET had discussed and enquires with management the susceptibility of the company's financial statement to material misstatement while preparing the checklists.*
- c. *Due consideration was given to parameters for risk of material misstatements while auditing the various sectors of revenue as explained in the earlier reply to NFRA. Further all the material transactions were scrutinized in the light of related party information to ensure the completeness of related party transactions included into the disclosures. While we understand that the documentation of ROMM procedures might not be adequate as referred by NFRA but the procedures were performed to the level*

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of adequacy and professional skepticism. Refer respective section for more details on going concern, revenue and related party comments.”

18.5 The Audit Firm’s responses dated 14th June 2021, to the NFRA DAQRR observations, have been examined and NFRA’s conclusions thereon are as follows:

- a. NFRA notes that the Audit Firm has failed to provide any new WP references or any audit evidence to support its submissions. Hence, these responses are without any basis and are considered only as an afterthought. Without prejudice to this, NFRA has perused the Audit Firm’s response on its merit, if any.
- b. NFRA notes that the Audit Firm has not made any rebuttal of NFRA’s DAQRR observations/comments. The Audit Firm has repeated the same assertions that it made in reply to NFRA’s PFC. The Audit Firm has not given any specific response to NFRA’s observations, as noted in [Para 18.3](#) above.
- c. For each of the Audit Firm’s response, as quoted in [Para 18.4](#) above, NFRA notes the following:
 - i. [Para 18.4.\(a\)](#) – The assertion of the Audit Firm that *“Separate work papers were not included for the stated evaluation in the audit file but the risks were traced into test of details done for every financial caption. The only potential risk pulled out from our testing related to litigations on the company under various sections.”* is only an afterthought. The Audit Firm has not been able to provide even a single reference to substantiate its assertion. As noted in [Para 18.1.\(f\) \(iv\)](#), there are no WPs in the audit file that could suggest that the Audit Firm had actually understood and analyzed
 - a. the possible impact or the current status of the litigations.
 - b. obtained legal advice from experts on litigation to confirm the chances favoring the Company.Instead of being skeptic and due diligent, the Audit Firm simply gave EOM on many of those litigations.

Further, the assertion of the Audit Firm that *“Further ET contention for the checklists of Fraud risk and internal control questionnaire includes conclusive remarks which were gathered after performing risk assessment procedures to provide basis for the identification and assessment of risks of material misstatement at the financial statement and assertion level.”* is without merit. Absence of audit documentation of the audit procedures performed and failure to obtain sufficient appropriate audit evidence, that formed the basis for

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conclusions drawn in the above referred checklist, proves that the requirement of Para 8 of SA 230 is not met.

- ii. [Para 18.4.\(b\)](#) – The assertion of the Audit Firm that “*ET had discussed and enquires with management the susceptibility of the company's financial statement to material misstatement while preparing the checklists.*” is also an afterthought since the Audit Firm has time and again not been able to substantiate its assertion with any audit evidence.
- iii. [Para 17.4.\(c\)](#) – The assertion of the Audit Firm that “*While we understand that the documentation of ROMM procedures might not be adequate as referred by NFRA but the procedures were performed to the level of adequacy and professional skepticism.*” is not tenable. Para A5 of SA 230 stated that “*Oral explanations by the auditor, on their own, do not represent adequate support for the work auditor performed or conclusions the auditor reached, but may be used to explain or clarify information contained in the audit documentation.*”

Therefore, NFRA is justified in concluding that the Audit Firm failed in identifying and assessing the ROMM.

18.6 Therefore, The Audit Firm has thus been found to have:

- a. Failed to identify and assess the risks of material misstatement through understanding the entity and its environment, including the entity’s internal control;
- b. Failed to design and implement responses to the assessed risks of material misstatement.
- c. Failed to reduce the risk of material misstatement to an acceptably low level.

all of which is required by the SAs.

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19. AUDIT DOCUMENTATION

19.1 Based on the response of the Audit Firm to NFRA's questionnaire dated 30th September 2019, NFRA had conveyed the following prima facie conclusions on 30th September 2020:

- a. Backdate of the Documents: WP A9 page 109-114 titled as "Brief Note of Debt Realignment plan" dated 07.04.2018 is the summarised document provided by the management of the company to the audit firm about the debt realignment plan of the company. In the document Annexure – II last para the management had stated that "*Hon'ble SC vide its order dated 09th August 2018 allowed RBI to take JAL to NCLT.*" It is evident that the document provided by the management to the auditors is backdated as the event which happened on 09th August 2018 cannot be disclosed on 07.04.2018.
- b. Time Allotted by the ET for the Engagement: WP A3.1,2&3 page 86-90 provides the details of the audit staff and the days allotted by ET for the audit of JAL. As per the details, the dates and the persons who had done the audit for different sites mentioned in the WPs is not matching with the details mentioned in the Audit programme of the same projects. The audit programme is attached in the particular folder of each site. For example: in the project REP, the time allotted for staff matrix is during some different dates in the month of Feb by Mr. R.K. Goel, Mr. Rohit Kumar, Mr. Abhishek Verma, Mr. Aman Garg and as per audit programme, WP C 7.1 page 3, the time allotted for REP project is 26-04-2018 to 27-04-2018 by Mr. RK Goel, Mr. Puneet Aggarwal and Mr. Umang Chawla. Thus, the name and the dates given in the staff matrix is not matching with the names and details as per the audit programme.
- c. Mismatch of the Hours Submitted with the Attendance Sheet:
 - i. As per WP A3.1,2&3 page No 87, as per the attendance sheet of the staff matrix Mr. R.K Goel was not present for the working of the JAL on 14.05.2018 but as per the hours allotted sheet submitted to NFRA, Mr. R.K. Goel had allotted 3 hours on 14.05.2018.
 - ii. WP A3.1,2 and 3 pages 86 - As per the attendance sheet, Mr. Navrachit Gupta and Mr Puneet Aggarwal had allotted time on 11.04.2018 for the audit of JAL but as per hours allotted sheet submitted to NFRA, there are no hours allotted on the same date. This raises a doubt regarding the reliability of the sheets made available to NFRA by the audit firm.
 - iii. As per WP A3.1,2 and 3 page No 90, CA Garima Bansal had done the work on JAL Hotel Corporate division on 17,18,19, 20 April 2018 but as per the attendance sheet and as per the hours allotted sheet submitted to NFRA, CA Garima Bansal was not present and had not allotted any hours on 20.04.2018.

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- d. It is, therefore, evident from the above that the audit documentation by the Audit Firm completely fails to ensure even the minimum essential to meet the requirements of SQC 1 and SA 230 as detailed above. The fundamental aspects of integrity of Audit Files, accountability of the firm and its personnel, maintaining sufficient appropriate audit evidence for the audit planning, performance and basis for conclusions for achieving audit objectives are seriously compromised as a result.
- e. NFRA, further, concludes that there is a complete failure of the Audit Firm to monitor and control the integrity of the audit files. Consequently, the audit files maintained by the auditor are not found to meet the compliance requirements of SA 230. In not having reviewed and rectified these deficiencies, the Audit firm is guilty of serious professional misconduct.

19.2 The Audit Firm in its response, to NFRA's prima-facie comments, dated 28th Nov 2020, stated that:

- a. *"Complying with Para 15 of SA 230, none of the audit documentation was deleted or altered post signing of the audit report. Further backdating of documents has not been done as the WPA9 page no 109-114 was received by the ET for the Quarter ended on 30.06.2018 (Quarterly Review) but ET wrongly put the document in the March 2018 Audit file. The document was originally drafted by the management on 07.04.2018 and updating the document continuously when the facts were updated. However, date of signing has not been changed due to ignorance but unintentionally.*
- b. *The WP 3.1 Pg 89 "Staff Matrix" during the February month, members of ET named Mr. R K Goel, Mr. Rohit Kumar, Mr. Abhishek Verma and Mr. Aman Garg were conducting interim audit for REP site at Sector 128 Noida. The WP C 7.1 Pg 3 consisting Audit programme of REP site which was related to finalization of accounts conducted at Sahibabd on dates 26.04.2018 & 27.04.2018 which is matching with the details mentioned under "Staff Matrix" under WP 3.1 Pg 90 by Mr. RK Goel, Mr. Puneet Agarwal and Mr. Umang Chawla. Therefore, it was only some kind of presentation issue in the audit file.*
- c. *The WP 3.1 Pg 86 to 87 "Staff Matrix" was prepared on the basis of WP 3.1 Pg 88 to 90 "Staff Matrix". However, while preparing staff matrix for Pg 86 to 87 there were some clerical mistake has been done by Audit staff. On the pointing out by NFRA, while we again review the same, we got difference between these staff matrix but there is no difference between staff Matrix (source document) and Hour spent. Mr. R K Goel was presented on 14.05.2018 as point no 18 Row no 2, Mr. Puneet Agarwal and Mr. Navrachit Gupta were no presented on 11.04.2018 as per Point No 18 Row no 5 and*

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Row no 7 respectively and Mrs. Garima Bansal was not present on 20.04.2018 as per Row 3 of Point no 18. This is only a clerical mistake done by audit team however there is no gap between hour spent and staff matrix.”

19.3 NFRA had examined the above contentions of the Audit Firm, received in response to the above noted NFRA’s PFC, and had concluded as follows in its DAQRR dated 30th March 2021:

- a. NFRA notes that the Audit Firm has implicitly accepted that it was grossly negligent in preparation of audit documentation for the audit of JAL for the FY 2017-18. Audit Documentation is the **principal record** of the auditing procedures applied, evidence obtained, and conclusions reached by the auditor in the engagement. Para 3 of SA 230 states the various additional purposes that the audit documentations serves. These, inter-alia, include
 - i. Enabling the engagement team to be accountable for its work.
 - ii. Enabling the conduct of quality control reviews and inspections in accordance with SQC 1.
 - iii. Enabling the conduct of external inspections in accordance with applicable legal, regulatory or other requirements.

Clearly, the preparation and maintenance of audit documentations should be such that it could

- i. enable conduct of external inspections;
- ii. enable conduct of quality control reviews;
- iii. enable inspections in accordance with SQC1; and
- iv. enable the ET to be accountable for its work.

However, in its reply, the Audit Firm has very casually asserted that “*date of signing has not been changed due to ignorance but unintentionally*”, “*it was only some kind of presentation issue in the audit file*” and “*clerical mistake has been done by Audit staff*”. These assertions, prima-facie, can only be construed as gross negligence on the part of the Audit Firm.

Further, NFRA notes that these assertions also prove that neither the EP nor the EQCR was duly diligent in conduct of its professional duties. They could not even identify the lacunae in the WPs that were originally prepared and subsequently reviewed by them. The assertions made in 19.2.1, can therefore be considered only as an afterthought.

- b) The assertion of the Audit Firm that “*Further backdating of documents has not been done as the WPA9 page no 109-114 was received by the ET for the Quarter ended on 30.06.2018 (Quarterly Review) but ET wrongly put the document in the March 2018 Audit file. The document was originally drafted by the management on 07.04.2018 and*

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updating the document continuously when the facts were updated. However, date of signing has not been changed due to ignorance but unintentionally.”, apart from portraying gross negligence in conduct of its professional duties, clearly proves that the Audit File was tampered with, even after 60 days period. NFRA notes that this was not the only instance of tampering with the audit file after 60 days. As noted in the Going Concern Section of this DAQRR, a copy of RBI directions dated 09.08.2018 (over 80 days after signing of the Auditor’s Report), for taking JAL into IBC which clearly indicates that the Audit Firm had not assembled the audit file and had not completed the administrative process even after 80 days of the date of the auditor’s report.

Para 14 of SA 230 states that *“the auditor shall assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis after the date of the auditor’s report”* (emphasis added). Para A21 of SA 230 states that *“SQC 1 requires firms to establish policies and procedures for the timely completion of the assembly of audit files. An appropriate time limit within which to complete the assembly of the final audit file is ordinarily not more than 60 days after the date of the auditor’s report”* (emphasis added). It is important to note that the phrase used by SA 230 is **“assembling the final audit file”**. Para 16 of SA 230 states that *“In circumstances other than those envisaged in paragraph 13 where the auditor finds it necessary to modify existing audit documentation or add new audit documentation after the assembly of the final audit file has been completed, the auditor shall, regardless of the nature of the modifications or additions, document: (Ref: Para. A24 -A25) (a) The specific reasons for making them; and (b) When and by whom they were made and reviewed.”*

Therefore, it is appropriate to conclude that there should be no tampering (deletion/updating/modification) after the completion of administrative process (that is not more than 60 days) of assembling the audit file without appropriate documentation of the specific reason for making them and the person and the time at which such changes were made.

However, the Audit Firm did neither close the audit file within 60 days of the signing of the audit report, nor documented the specific reasons of the changes and the person who made the changes.

- c) It is evident that the audit documentation by the Audit Firm completely fails to ensure even the minimum requirements of SQC 1 and SA 230, as detailed above. The fundamental aspects of integrity of Audit Files, accountability of the firm and its personnel, maintaining sufficient appropriate audit evidence for the audit planning,

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performance and basis for conclusions for achieving audit objectives are seriously compromised as a result.

- d) The Audit Firm is guilty of serious professional misconduct since the audit files maintained by the auditor are not found to meet the compliance requirements of SA 230 and since these were neither reviewed nor rectified.
- e) Therefore, NFRA concludes that the Audit Firm has
 - i. Not exercised due diligence, and have been grossly negligent in the conduct of their professional duties;
 - ii. Failed to conduct Audit in accordance with the requirements of Standards on Auditing.

19.4 In their communication dated 14th June 2021 the Audit Firm has submitted its response to the DAQRD dt. 30th March 2021 issued by NFRA, as follows:

a) *“As stated in the reply to NFRA’s prima-facie comments dated 28th Nov 2020, ET Complying with Para 15 of SA 230, none of the audit documentation was deleted or altered post signing of the audit report. Further backdating of documents has not been done as the WPA9 page no 109114 was received by the ET for the Quarter ended on 30.06.2018 (Quarterly Review) but staff wrongly put the document in the March2018 Audit file. The document was originally drafted by the management on 07.04.2018 and updating the document continuously when the facts were updated. However date of signing has not been changed due to ignorance.*

b) *The WP 3.1 Pg 89 "Staff Matrix" during the February month, members of ET named Mr. R K Goel, Mr. Rohit Kumar, Mr. Abhishek Verma and Mr. Aman Garg were conducting interim audit for REP site at Sector 128 Noida. The WP C 7.1 Pg 3 consisting Audit programme of REP site which was related to finalization of accounts conducted at Sahibabd on dates 26.04.2018 & 27.04.2018 which is matching with the details mentioned under "Staff Matrix" under WP 3.1 Pg 90 by Mr. RK Goel, Mr. Puneet Agarwal and Mr. Umang Chawla. Therefore there was no mismatch in the audit file.*

The WP 3.1 Pg 86 to 87 "Staff Matrix" was prepared on the basis of WP 3.1 Pg 88 to 90 “Staff Matrix”. However while preparing staff matrix for Pg 86 to 87 there were some clerical mistake has been done by Audit staff as explained in reply to NFRA’s prima-facie comments.

Audit firm always try to explain the observation made by NFRA and never tried to mislead to NFRA. There may be some mismatch with the expectation of NFRA but ET has done the audit and prepared audit file in timely manner and independently.”

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19.5 The Audit Firm's responses dated 14th June 2021, to the NFRA DAQRR observations, have been examined and NFRA's conclusions thereon are as follows:

- a) NFRA notes that the Audit Firm has failed to provide any new WP references/audit evidence to support its submissions. The WP referred in the response had already been examined in detail by NFRA in its DAQR report. Without prejudice to this, NFRA has perused the Audit Firm's response on its merit, if any.
- b) NFRA notes that the Audit Firm has not raised any objections against NFRA's DAQRR observations/comments. The Audit Firm has exactly repeated the same assertions that it made in its reply to NFRA's PFC ([Para 19.2](#)). The Audit Firm has not given any specific response to NFRA's observations, as noted in [Para 19.3](#) above.
- c) For each of the Audit Firm's response, as quoted in [Para 19.4](#) above, NFRA notes the following:
 - i. Para 18.4.1 – The assertion of the Audit Firm that *“ET Complying with Para 15 of SA 230, none of the audit documentation was deleted or altered post signing of the audit report. Further backdating of documents has not been done as the WPA9 page no 109114 was received by the ET for the Quarter ended on 30.06.2018 (Quarterly Review) but staff wrongly put the document in the March 2018 Audit file.”* can only be construed as an attempt to mislead NFRA. The WP A9 page 109-114 titled as “Brief Note of Debt Realignment plan” dated 07th April 2018 clearly provides reference to Annexure II, which notes the details of the Supreme Court's order dated 09th August 2018. It is thus evident that the document provided by the management to the auditors is backdated as the event which happened on 09th August 2018 cannot be disclosed on 07th April 2018. Further, as enumerated in [Para 19.3.\(b\)](#), there should be no tampering (deletion/updating/modification) after the completion of administrative process (that is not more than 60 days) of assembling the audit file without appropriate documentation of the specific reason for making them and the person and the time at which such changes were made. However, the Audit Firm has implicitly stated that it did not close the audit file within 60 days of the signing of the audit report. This in itself is a gross violation of the SAs.
 - ii. Para 18.4.2 – As enumerated in [Para 18.3.\(a\)](#), audit documentation is the principal record of the auditing procedures applied, evidence obtained, and conclusions reached by the auditor in the engagement. The preparation and maintenance of audit documentations should be such that it could

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- a. enable conduct of external inspections;
- b. enable conduct of quality control reviews;
- c. enable inspections in accordance with SQC1; and
- d. enable the ET to be accountable for its work.

However, in its reply, the Audit Firm has very casually asserted that “*some clerical mistake has been done by Audit staff*”. These assertions, prima-facie, can only be construed as gross negligence on the part of the Audit Firm. Neither the EP nor the EQCR was duly diligent in conduct of its professional duties. They could not even identify the lacunae in the WPs that were originally prepared and subsequently reviewed by them.

19.6 Therefore, NFRA concludes that the Audit firm has

- a. Not exercised due diligence, and have been grossly negligent in the conduct of their professional duties;
- b. Failed to conduct Audit in accordance with the requirements of Standards on Auditing.

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20. ENGAGEMENT QUALITY CONTROL REVIEW (EQCR)

20.1 Based on response of the Audit Firm to the NFRA's questionnaire dated 30th September 2019, NFRA had conveyed the following prima facie conclusions on 30th September 2020:

- a. NFRA noted that the EQCR process, for the audit of JAL for FY 2017-18, was done by the EP (CA R.K.Goel) himself. The WP A 3.1,2&3 page 1-4 and page 113-119 clearly noted that they were prepared by CA Puneet Kumar Aggarwal and were reviewed by Mr. R. K. Goel. The WP A 3.1 page 86, even notes that CA R.K. Goel, Senior Partner of the firm had the responsibility as the Engagement Quality Control (EQC) reviewer. Apart from CA R.K. Goel, CA Garima Bansal had the responsibility of the review of Hotel division financials alone. No other personnel had been identified as forming part of the EQCR team of JAL. Further, WP A3.1,2 & 3 Page No 92 – 94 reveals that the review report of JAL with respect to statutory audit of JAL for FY 2017-18 is signed by CA R K Goel. Thus, it is evident that CA R.K. Goel is the EQC reviewer and EP of JAL.
- b. In response to NFRA query regarding the network firm details, EQCR partner, Hours allotted by EQCR partner and EP, the audit firm had submitted that CA Garima Bansal is the review partner. However, NFRA noted that this was not acceptable, as there was no documentation of any EQC review done by CA Garima Bansal. Rather, as noted above, CA R.K. Goel had signed as reviewer in various WPs throughout the audit file.
- c. Further, NFRA also noted that the Audit Firm had merely written the name of the reviewer (CA R.K. Goel) as part of the EQC review. There was no documentation of the discussion and conclusions between the EP and the EQCR. In absence of documentation or any other persuasive evidence, NFRA concluded that the required quality control procedures had not been performed.
- d. It was therefore reasonable to conclude that the audit firm completely failed to comply with requirements of the SAs regarding EQC review. There was no EQC review that took place. The EP had himself acted as the EQCR, which is gross and total violation of the SAs.

20.2 The Audit Firm in its response, to NFRA's prima-facie comments, dated 28th Nov 2020, stated that *“Per this policy of the audit firm, CA Garima Bansal is the designated engagement quality control reviewer for the audit of listed entities wherein she is not the engagement partner herself. For the audit of JAL, CA Garima has been the EQCR partner while CA R. K. Goel is the engagement partner on the assignment. Referring to the workpapers pointed out by NFRA, WP A3.1,2 and 3, Pg 92-94 is signed by CA R.K. Goel only to review the overall work performed*

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by ET and was prepared before submission of audit files to EQCR. There can be some drafting mistakes in review report which makes it as EQCR's report. The file is reviewed by CA Garima Bansal as an EQCR partner and below matters were discussed after completion of her review with the engagement partner and engagement team –

- i. Significant matters related to audit*
- ii. Audit report*
- iii. EOM's given in audit report*
- iv. Review of financial statements*
- v. Areas involving significant judgements made by the engagement team*
- vi. Areas involving estimates by the management and validated by engagement team”*

20.3 NFRA had examined the above contentions of the Audit Firm, received in response to the above noted NFRA's PFC, and had concluded as follows in its DAQRR dated 30th March 2021:

- a. NFRA notes that the Audit Firm has failed to provide even a single reference to a WP that could support its contentions that CA Garima Bansal had performed the EQC review for the audit of JAL for FY 2017-18. Para 25 of SA 220 requires the EQCR to document that engagement quality control review has been completed on or before the date of the auditor's report. However, there is no signoff of CA Garima Bansal available that can substantiate the fact the EQCR complied with the requirements of Para 25 of SA 220. Therefore, NFRA notes that it had very appropriately concluded that there was no EQC review done for the audit of JAL for FY 2017-18.
- b. Further, NFRA notes that the reply of the Audit Firm that *“Referring to the workpapers pointed out by NFRA, WP A3.1,2 and 3, Pg 92-94 is signed by CA R.K. Goel **only to review the overall work performed by ET and was prepared before submission of audit files to EQCR. There can be some drafting mistakes in review report which makes it as EQCR's report.**”* (emphasis added) is a complete sham and an attempt to mislead NFRA, since the WP A3.1,2 and 3, Pg 92-94 titled ***“Review Report with Respect to the Statutory Audit of M/S, Jaiprakash Associates Limited Conducted by M/S Rajendra K Goel & Co. for the Year Ended 31st March 2018”*** is signed by CA R.K. Goel in capacity of the EQC Reviewer and not just to review the overall work of the ET before submission of audit files to EQCR. This is evident since the WP (review report) itself states that the following process was followed by the undersigned (CA R.K. Goel): ***“In performing the engagement quality control review the following procedures have been followed:***

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- i. An objective evaluation has been done of significant judgments made and the conclusions reached in formulating the report.*
- ii. The resolution and conclusions reached regarding audit matters requiring consultation have been reviewed for appropriateness.*
- iii. The firm's and the engagement team's independence in relation to the audit under review has been evaluated.*
- iv. The financial statements have been read along with other subject, matter information and the report reviewed for appropriateness.*
- v. A review has been done of selected engagement documentation relating to the significant judgments and the conclusions reached.*
- vi. Discussions have been held with the **engagement partner/team leader** about significant findings and issues.” (emphasis added)*

Clearly, the report was designed to be signed by the EQCR, **while performing the engagement quality control review**, whereby discussions were held with the EP/team leader. However, given the fact that this review report is signed by the CA R.K.Goel himself and in absence of any such review report/audit documentation of EQC review done by the claimed EQCR – CA Garima Bansal, NFRA concludes that there was no objective evaluation/EQC review done for the audit of JAL for the year ended 31st March 2018.

Had it been a drafting issue (as asserted by the Audit Firm), the Audit Firm should have referred to the WP, whereby the EQCR had documented that

- i. The procedures required by the firm’s policies on engagement quality control review have been performed;*
- ii. The engagement quality control review has been completed on or before the date of the auditor’s report; and*
- iii. The reviewer is not aware of any unresolved matters that would cause the reviewer to believe that the significant judgments the engagement team made and the conclusions they reached were not appropriate. (Para 25 of SA 220).*

However, in the absence of any such documentation the assertion of the Audit Firm that “*There can be some drafting mistakes in review report which makes it as EQCR's report*” is construed only as an attempt to mislead NFRA.

- c. In light of all of the above, NFRA reiterated the conclusions made in the PFC that the audit firm completely failed to comply with requirements of the SAs regarding EQC review. There was no EQC review that took place. This is a gross and total violation of the SAs.*
- d. Therefore, NFRA concluded that the*

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- i. EQCR Partner has:
 1. failed to comply with the requirements of the SAs regarding EQC review.
 2. failed in complying with various provisions of SQC 1, SA 220 and SA 230
- ii. Audit Firm has:
 1. failed to comply with the requirements of the SAs regarding EQC review and issued audit report without objective evaluation from the EQCR Partner.
 2. failed in complying with various provisions of SQC 1, SA 220 and SA 230.

20.4 In their communication dated 14th June 2021 the Audit Firm has submitted its response to the DAQRR dt. 30th March 2021 issued by NFRA, as follows:

“As stated in the reply to NFRA’s prima-facie comments dated 28th Nov 2020, as per the policy of the audit firm, CA Garima Bansal is the designated engagement quality control reviewer for the audit of listed entities wherein she is not the engagement partner herself. For the audit of JAL, CA Garima has been the EQCR partner while CA R. K. Goel is the engagement partner on the assignment. Referring to the work papers pointed out by NFRA, WP A3.1,2 and 3, Pg 9294 is signed by CA R.K. Goel only to review the overall work performed by ET and was prepared before submission of audit files to EQCR. The audit file is reviewed by CA Garima Bansal as an EQCR partner.”

20.5 The Audit Firm’s responses dated 14th June 2021, to the NFRA DAQRR observations, have been examined and NFRA’s conclusions thereon are as follows:

- a. NFRA notes that the Audit Firm has failed to provide even a single reference to a WP that could support its contentions that CA Garima Bansal had performed the EQC review for the audit of JAL for FY 2017-18. There is no signoff of CA Garima Bansal available in the audit file that can substantiate the fact the EQCR complied with the requirements of Para 25 of SA 220. Therefore, NFRA notes that it had very appropriately concluded that there was no EQC review done for the audit of JAL for FY 2017-18.
- b. Further, NFRA notes that the Audit Firm has not raised any objections against NFRA’s DAQRR observations/comments. The Audit Firm has repeated the same assertions that it made in reply to NFRA’s PFC. The Audit Firm has not given any specific response to NFRA’s observations, as noted in [Para 20.3](#) above.

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In fact, the reply of the Audit Firm (as noted in [Para 20.4](#)) is a complete sham and an attempt to mislead NFRA, since the WP A3.1,2 and 3, Pg 92-94 titled “*Review Report with Respect to the Statutory Audit of M/S, Jaiprakash Associates Limited Conducted by M/S Rajendra K Goel & Co. for the Year Ended 31st March 2018*” is signed by CA R.K. Goel in his capacity as the EQC Reviewer and not just to review the overall work of the ET before submission of audit files to EQCR (for further details refer [Para 20.3.\(b\)](#))

20.6 Therefore, NFRA concluded that the

- a. EQCR Partner has:
 - i. failed to comply with the requirements of the SAs regarding EQC review.
 - ii. failed in complying with various provisions of SQC 1, SA 220 and SA 230
- b. Audit Firm has:
 - i. failed to comply with the requirements of the SAs regarding EQC review and issued audit report without objective evaluation from the EQCR Partner.
 - ii. failed in complying with various provisions of SQC 1, SA 220 and SA 230.

Approved by the Executive Body of NFRA for Issue



(Vivek Narayan)

Secretary, NFRA

विवेक नारायण/VIVEK NARAYAN
सचिव/Secretary
राष्ट्रीय वित्तीय रिपोर्टिंग प्राधिकरण
National Financial Reporting Authority

AQR Report on Statutory Audit of JAL, FY 2017-18**Annexure 1****CHRONOLOGY OF THE EVENTS LEADING TO DAQRR OF THE STATUTORY AUDIT OF JAL FOR THE FINANCIAL YEAR 2017-18, CARRIED OUT BY RAJENDRA K. GOEL & CO.**

Sl. No	Date	Event/ Correspondence
1.	07.02.2019	Letter of NFRA sent to CA Rajendra K. Goel requesting for the Audit File of Jaiprakash Associates Ltd. for the Financial Year 2017-18.
2.	09.09.2019	Letter sent to CA Rajendra K. Goel (Engagement Partner) seeking peer review report; peer review certificate; details of misconduct, disciplinary proceeding and litigations, if any, relating to M/S Rajendra K. Goel & Co. list of related parties and audit/ non-audit revenue; details of engagement and EQCR teams.
3.	30.09.2019	Questionnaire sent to CA Rajendra K. Goel seeking replies to the same.
4.	05.10.2019	Reply of CA Rajendra K. Goel to NFRA letter dated 09.09.2019.
5.	15.01.2020	Reply of CA Rajendra K. Goel to NFRA letter dated 30.09.2019.
6.	30.09.2020	NFRA's letter dated 30.09.2020 to CA Rajendra K. Goel conveying its comments/ observations/ prima facie conclusions on the various issues in the questionnaire.
7.	28.11.2020	Reply of CA Rajendra K. Goel to NFRA letter dated 30.09.2020.
8.	30.03.2021	Issuance of Draft AQR Report (DAQRR).
9.	14.06.2021	Reply of CA Rajendra K. Goel to NFRA letter dated 30.03.2021.
10	05.08.2021	E mail dt. 05/08/2021 to the Audit Firm providing Firm with a chance for oral hearing on 20th August 2021.
11	10.08.2021	Response of the Audit Firm not to avail of the opportunity afforded for an oral hearing
12.	27.08.2021	Issuance of AQR Report (AQRR).