भारत सरकार / Government of India
राष्ट्रीय वित्तीय रिपोर्टिंग प्राधिकरण / National Financial Reporting Authority
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No. NF-23/46/2021 Date: 12.09.2022

ORDER UNDER SECTION 132(4) OF THE COMPANIES ACT, 2013

In the case of CA Som Prakash Aggarwal (ICAI Membership Number 74813)

1. An information dated 25.08.2021 was received from The Securities and Exchange Board of India (SEBI) in the case of VIKAS WSP LIMITED (VWL), Sri Ganganagar, Rajasthan (CIN - L24139HR1988PLC030300), wherein it was stated that the company did not recognize the interest expense on its borrowings from banks in the Statement of Profit and Loss for FY 2019-20, which resulted in overstatement of profits by the company.

2. VWL is a company listed on the Bombay Stock Exchange and National Stock Exchange and therefore, as per Rule 4 of the Companies (Indian Accounting Standards) Rules, 2015, it is required to comply with the Indian Accounting Standards (Ind AS) prescribed under these rules for the preparation and presentation of its annual financial statements.

3. M/s S. Prakash Aggarwal & Co. (Firm) was the statutory auditor of VWL and CA Som Prakash Aggarwal was the Engagement Partner (EP) for this statutory audit for FY 2019-20. To examine the case, the EP was requested on 11.11.2021, to submit the Audit File and SQC1[1] Policy of the Firm. The sequence of events thereafter is briefly listed below

a) In response, on 08.12.2021, the EP furnished a part audit file along with main points of SQC1 Practice and Procedure followed by the Firm.

b) On 21.12.2021, a reminder was sent to the EP asking him to submit the complete audit file and SQC1 Policy of the Firm. The EP sought extension of time of 30 days and was granted time till 20.01.2022.

c) On 20.01.2022, the EP submitted the SQC1 Policy of the Firm and some part of the audit file stating that "*some audit documents available in hard form are of poor quality and their copies were blurred, would be filed after getting digitalized with the help of specialist*".

d) On 04.02.2022, a questionnaire pertaining to the statutory audit of VWL was sent to the EP requiring him to submit his reply latest by 19.02.2022. The EP submitted his reply to the questionnaire on 23.02.2022.

[1] Refer Para 7 and 8 of Standards on Quality Control (SQC)1Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements

e) As submission of balance part of the audit file was still pending, therefore, on 29.03.2022, the EP was again requested to submit the complete audit file along with the Affidavit latest by 07.04.2022. Finally, on 19.04.2022, the EP submitted the balance part of the audit file and an Affidavit stating that the complete audit file had been submitted.

f) After examination of the audit file and materials available on record, an apparent case of professional misconduct on the part of the EP was found and accordingly a Show Cause Notice (SCN) under Rule 11 (1) of the National Financial Reporting Authority Rules, 2018 (NFRA Rules 2018) was issued to the EP on 29.06.2022, giving him time to respond by 28.07.2022.

g) On 27.07.2022, the EP filed written submissions in response to the SCN along with a request for online personal hearing. In accordance with Rule 11(5) of NFRA Rules 2018, the EP was given an opportunity of personal hearing on 17.08.2022 through Video Conferencing. On 16.08.2022, the EP requested for extension of time to attend personal hearing. Accepting his request, a revised date of 25.08.2022 was given.

h) The Online personal hearing was conducted on 25.08.2022 and the proceedings were recorded. During personal hearing through Video Conferencing, the EP conveyed that his written reply dated 27.07.2022 was the final reply and he reiterated the submissions made in his written reply.

4. In this backdrop of events, all the materials on record have been perused including the written responses of the EP both before and after issue of the SCN wherein professional misconduct was alleged. Failure to report understatement of Interest Costs pertaining to Borrowings classified as Non-Performing Assets (NPAs) by the lender banks, understatement of Current Liabilities, overstatement of Profit Before Tax (PBT), improper disclosures in the financial statements of VWL for FY 2019-20 and inadequate audit documentation by the EP etc., are some of the major violations found. The main lapses on the part of the EP can be broadly categorised as:

a. **Failure to Report Lapses in Accounting of Interest Costs pertaining to Borrowings classified as NPAs**
b. **Other Lapses in conduct of Audit**

These are discussed as under:

5. Failure to Report Lapses in Accounting of Interest Costs pertaining to Borrowings classified as NPAs:

5.1 Indian Accounting Standard (Ind AS) 109, *Financial Instruments* (Ind AS 109) mandates classification and measurement of financial liabilities including Interest Costs thereof, till such financial liability is extinguished (Para 3.3.1, 4.2.1, 5.1 and 5.3 of Ind AS 109). The company had borrowings of ₹ 135.65 crores as on 31.03.2020 and ₹ 155.29 crores as on 31.03.2019. It recognized total Interest Costs of ₹ 4.16 crores in FY 2019-20 and ₹

21.08 crores in FY 2018-19. On perusal of Note 33(a)(i) of Notes to Accounts for the FY 2019-20, it is seen that the company did not recognize the full amount of Interest Costs in its financial statements for FY 2019-20.

5.2 Even if Interest Costs on these Borrowings were to be considered at ₹ 21.07 crores, as disclosed by the company in the previous FY i.e. 2018-19, in place of ₹ 4.16 crores for FY 2019-20, then the potential impact was understatement of Interest Costs and Current Liabilities by at least ₹ 16.91 crores. Such an understatement of costs leads to an overstatement of profit. In the instant case, the reported PBT was ₹ 19.20 crores and if the over statement is ₹ 16.91 crores, then it is 88% of reported PBT. Such a high percentage of overstatement is a material and significant misstatement of VWL's financial statements.

5.3 The EP had to verify the correct accounting of Interest Costs and in case of erroneous accounting, had to issue modified audit opinion regarding the same. This issue was raised in our letter dated 04.02.2022 and in the EP's reply dated 23.02.2022, the EP inter-alia relied on a Management Representation Letter (MRL) dated 24.06.2020. This MRL contained several inconsistencies which were pointed out in the SCN dated 29.06.2022 and are discussed in Para 9.2 of this Order.

5.4 It was noted that VWL did not show consistency in its Accounting Policy. As per the disclosure in the Annual Report[2], Interest Costs on the Borrowings classified as NPAs by the lending banks was not charged to Statement of Profit and Loss since the lender banks had not charged interest on the loans / export credit facilities extended to the company. The management of VWL accounted for the interest accrued on such loans classified as NPAs in FY 2018-19, but did not do so in 2019-20, thereby deviating from their own Accounting Policy. Despite such inconsistency, the EP did not report about the same during the audit, thus committing professional misconduct. Instead of exhibiting due diligence and pointing out the significant misstatements arising out of these accounts, the EP has given an unmodified opinion on the Financial Statements of the company for FY 2019-20 stating as -

> *"In our opinion and to the best of our information and according to the explanations given to us, the aforesaid standalone financial statements give the information required by the Companies Act, 2013 ("the Act") in the manner so required and give a true and fair view in conformity with the Indian Accounting Standards prescribed under section 133 of the Act read with the Companies (Indian Accounting Standards) Rules, 2015, as amended, ("Ind AS") and other accounting principles generally accepted in India, of the state of affairs of the Company as at March 31, 2020, and its profit, total comprehensive income, its cash flows and the changes in equity for the year ended on that date."*

[2]Refer Note 33(a)(i) of the Annual Report for the FY 2019-20.

6. Other Lapses in conduct of Audit:

Besides the issue of accounting of Interest Costs described in previous paragraphs, the following other serious lapses were noticed in the conduct of audit by the EP, which are in violation of Standards on Auditing (SAs):

(i) Absence of audit documentation for non-recognition of Interest Costs on the Borrowings classified as NPAs by the lending banks. Absence of documentation challenging the Management for such erroneous accounting treatment.

(ii) Poor quality of Audit documentation that makes it difficult for an experienced auditor, having no previous connection with the extant audit engagement to understand the rationale for such accounting treatment.

(iii) Absence of audit evidence in the form of direct confirmations in respect of outstandings from banks.

(iv) Absence of crucial audit evidence in this case like loan agreements, correspondences with banks etc.

(v) Absence of any evidence regarding determination of Those Charged with Governance (TCWG[3]) within the entity and the communications made with them, if any.

(vi) Non-engagement of Engagement Quality Control Reviewer (EQCR) for VWL, which is a significant non-compliance with the SAs[4].

Therefore, EP has not complied with most of the SAs and this has made audit work unreliable.

7. In light of these lapses, an SCN was issued on 29.06.2022, charging the EP with professional misconduct on the following grounds:

a. failure to disclose material facts known to him, which is not disclosed in a financial statement, but disclosure of which is necessary in making such financial statement, where he is concerned with that financial statement in a professional capacity.

b. failure to report a material misstatement known to him to appear in a financial statement with which EP is concerned in a professional capacity.

c. failure to exercise due diligence, and being grossly negligent in the conduct of professional duties.

d. failure 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; and

[3] Para 11 of SA 260(R) Communication with Those Charged with Governance
[4] Para 19(a) of SA 220 Quality Control for an Audit of Financial Statements

e. failure to invite attention to any material departure from the generally accepted procedure of audit applicable to the circumstances

8. Replies of the EP to the Charges made in the SCN

8.1 **In response to Point 1 of the SCN** regarding that Statutory Audit is mandatorily to be done as per the provisions of the Companies Act 2013 (CA-13) and the SAs, the EP replied that-

".... that Requirement in Section 143(9) read with Section 143(10) and 2(7), that an auditor shall comply with the auditing standards, must not be understood in isolation without understanding that Auditing Standards notified by the government are a set of principles to be followed for audit, and those principles provided enough room for exercising auditors' judgment and for adoption of alternative processes. Therefore, prescriptions in Auditing Standards are not thumb rules. Unlike in the case of "rules", many Auditing Standards provide for alternatives or options to be exercised based on auditors judgment. Therefore, it is not possible to judge an auditors performance, as if the Auditing Standards were certain Rules that were to be complied with, word by word. For this very reason, wherever an auditor has exercised his judgment with reference to one or other principle laid down in auditing standards or accounting standards and applied an alternate process or method, so long as such alternative methods do not defeat the objective of audit as envisaged in the auditing standards, the auditor cannot be faulted just for adopting alternatives."

8.2 **In response to Point 3 of the SCN**, wherein it was pointed out that the EP did not discharge his professional duties in accordance with the SA 200 and other SAs, the EP replied that –

"Attention is invited to Para 7 of SA 200 which states that "the SAs contain objectives, requirements and application and other explanatory material that are designed to support the auditor in obtaining reasonable assurance". An auditor gains clarity and support from SAs to undertake his assignment objectively. It is a supporting document. How to do an audit is not specified in the SAs. An auditor has to device his own methods and processes. An auditor has to find ways and means to obtain reasonable assurance about the financial position presented in the financial statements. SAs only provide principles.

NFRA seemed to be proposing to judge the quality of audit work undertaken by the Respondent based on the principles stated in the SAs alone without considering the facts and figures in the financial statements in contention".

8.3 **In response to Point 3.3 of the SCN** pointing out failure to exercise professional scepticism in key areas of financial reporting, the EP replied that-

"Contents in Para 3.3 alleging failure to exercise professional skepticism with reference to evaluation of interest cost is misconceived. The Respondent had exercised his judgment to the facts of the case. The ***company was offered a one time settlement (OTS) proposal by the lender banks Bank of India and Union Bank of India****. According to the OTS proposal, the company estimated no extra cash outflow beyond the carrying value. Since the company was following Ind AS,* ***following the Effective Interest System to*** *be followed for interest accounting, no amount of interest was due to be recognised. If there was no proposal of OTS, the case would have been same as previous year. Therefore the facts of the case in FY 2019-20 were unique and the Respondent was required to exercise judgment according to the changed circumstances. It was not a case of dropping caution or skepticism, as wrongfully alleged in the Notice. The allegation is denied."*

8.4 **In response to Point 3.3 and 4.1.3.C of the SCN** regarding failure of EP in maintaining audit documentation while conducting Audit, EP replied that-

"The NFRA is not in possession of any material to assume that the management assumptions were not challenged by the Respondent. There were detailed conversations with the management on the issue of their decision not to recognise interest stated above for 2019-20. Both the factual circumstances and effect of relevant Ind AS principles in Ind AS 109 were put to strict test by the Respondent during the meetings with the management. The Respondent did not have any system of minuting the meetings with management on points of Balance sheet. This was not in violation of any regulatory provisions. The Respondent has already given explanations for the reason of non-recognition of interest by VWL in 2019-20. If the Respondent had not secured sufficient information and reasonable assurance on this point during audit, it would have been not possible to provide such a firm explanation in response to NFRA queries.

The NFRA is grossly wrong in assuming that audit documentation maintained by an auditor is that what proves the correctness of auditor's judgment. The NFRA is putting the 'cart before the horse' here. Audit documentation is one of the means to the process of audit. What has to be tested is not the process , but the judgment itself. Judgment made by the Respondent was not only based on working papers available in writing, but also based on outputs from several discussions with company management which is integral to forming an opinion".

The EP further submitted that–

"Observations in Paras (a) to (i) under the heading Audit Documentation and Audit Evidences do not establish that the audit report issued by the Respondent was deficient in any manner. The lone point in debate is the correctness of accounting of interest in 2019-20 and appropriateness of audit opinion in this regard. This is a very technical point strictly decided with reference to the principles in Ind AS l09 Appendix A. There is

no need of any detailed working note or working paper as support to form a view on a principle of accounting, based on Ind AS l09.

The NFRA has erred in its perception that an audit opinion not backed by a working note in the working papers, has some kind of deficiency what has to be tested is the correctness of the audit opinion based on the explanations offered by the Respondent. If an audit opinion is suspected to be flawed or erroneous, then the Auditor can rely up on working notes and working papers to justify his decision. In other words working papers are tools of self-defence for auditor. ***Hence absence of working papers or deficiency in working papers, in itself is not a case of professional misconduct.*** *Where there are no adverse views about the audit opinion deficiency with audit working papers cannot constitute evidence against the auditor on allegations of misconduct".*

8.5 In **response to Point 4.1.3 of the SCN** alleging that evaluation of interest costs on the loans classified as NPAs was not in conformity with the SAs, the EP replied that –

"The observation that evaluation of interest cost found to be not in conformity with the SAs is absurd. Interest cost is not based on time proportion system under Ind AS accounting system. Interest cost is not based on contractual rate system alone in Ind AS system. On the other hand interest cost is accounted for based on expected cashflows under EIR method in Ind AS system. When no additional cost of interest is recognisable following the Ind AS system, evaluation of interest cost necessarily has to acknowledge that fact. A simplistic clerical exercise of comparison of interest cost recognised in current year with previous year is not evaluation of interest cost. Even if there is significant difference between interest recognised in previous year and that in current year, when there are reasons for such a variation as explained above, the evaluation process shall take such facts in to account. The NFRA has not attempted to see how an auditor analysed the interest cost in the given case, in view of the circumstances around. Hence the observation is devoid of any merit".

8.6 **In response to Point 4.1.3.D of the SCN** regarding Misunderstanding of the definition of Effective Interest Rate (EIR) for calculation of Interest Cost, the EP replied that –

"Under IndAS accounting mere existence of a liability in the books of account alone is not a sufficient reason to assume that interest shall accrue on the said liability. Accrual of interest under Ind AS principles is assessed based on two key aspects such as expected future cash flows associated with service and settlement of liability, and carrying value of liability' in the books of accounts as on date of assessment. Contractual rate of interest applicable on the liability is not the criterion to be used. In a regularly serviced performing loan account, future cash flows associated with loan would naturally be according to contractual rate of interest. ***However when a borrower is unlikely to settle his loan obligations at contractual terms, because of financial problems, expected future cash flows associated with the loan will not be according to contractual terms, but based on the amount at which it will be settled.***

Therefore the proposition in the SCN that company should have provided interest cost, is the result of improper understanding of the EIR method in Ind AS 109. *NFRA has not specified whether the explanation of the Respondent is unacceptable, because it disputes the interpretation of the Respondent about the principles of EIR method OR because of any other reason. If the former is the case, then NFRA shall seek expert views on this technical point before alleging misconduct against the Respondent. If not, the NFRA shall specify the other reason if any for the Respondent to reply".*

8.7 **In response to Point 4.2.1 of the SCN** regarding Non-implementation of quality control procedures at the engagement level including non-appointment of EQCR, the EP replied that –

"contents in Para 4.2.1 on non-appointment of EQCR has no merits and denied. Appointment of Engagement Quality Reviewer is not mandatory, and para 19 of SA 220 does not make any such proposals. Hence the contents in 4.2.1, are baseless and denied."

8.8 **In response to Point 5.4 of the SCN** regarding the Charges of Professional Misconduct, of failure to obtain sufficient information for expression of an opinion, the EP replied that –

"There was no case of not obtaining sufficient information by the Respondent during audit. The NFRA is grossly wrong in judging the subject "obtaining of information" based on working papers alone 'Oral queries and explanations form a major part of information' Courts of law and all adjudication processes provide room for oral hearing to form final view. An auditor also does a job of judgment. He is empowered by the law for that. He is not required to scribble every word he utters or listens to during his discharge of duties, in order to satisfy adjudicators who, sit in judgment of his jobs. Job of a auditor must be judged on the basis of out puts, and not but on the basis of quality of his noting. No person would be able to take decisions, if he has the fear that his judgments would be questioned on the basis of his Notes. Civil servants and judiciary are given appropriate immunity under the law, where decisions are taken in good faith. Hence NFRA shall bear in mind the above stated principles of basic jurisprudence while judging the quality of auditor's job. It is vehemently denied that the charge of not obtaining sufficient information as alleged in para 5.4 has any merits".

8.9 **Thus, the EP did not accept any of the charges in the SCN except the following comment that –**

".....Looking in retrospect the Respondent acknowledges that a detailed disclosure, with reference to the principles in Ind AS 109 that supported the accounting to give effect to the decision of the management not to charge interest on NPAs under the consideration of OTS, would have avoided criticism of SEBI and NFRA to which the Respondent is subjected to".

8.10 During the online personal hearing conducted on 25.08.2022, EP conveyed that his written submissions dated 27.07.2022 were his final replies and reiterated the contents of these written submissions. The EP stated that he had seen and discussed the purported One-Time Settlement (OTS) proposal with the lending banks but did not document it.

9. Analysis and Findings

9.1 Non-compliance with the Standards

(i) We have gone through all the materials on record and the written submissions of the EP dated 23.2.2022 and 27.7.2022. The SAs and Ind AS are mandatory for the preparers of accounts and the statutory auditors in the preparation and audit of financial statements of listed entities. It is a flawed understanding of the EP, when he speaks of auditing standards not being thumb rules, but a set of principles for audit, which allow auditors to adopt alternative processes. His reply on this aspect has been listed in para 8.1 above. The EP does not understand that the present-day standard setting has undergone a paradigm shift wherein sufficient application guidance and other explanatory material is available in SAs and Ind AS apart from the principles of the standards, which are required to be mandatorily followed. All auditing and accountancy professionals should be seized of these.

(ii) Section 143(9) of the Companies Act, 2013 mandates that "Every auditor shall comply with the auditing standards." Again, Para 18 of SA 200 requires that the auditor shall comply with all SAs relevant to the audit. The claim of the EP that SAs are merely supporting documents and it do not specify how Audit is to be conducted, goes against the legal and statutory requirements. The relevant standards themselves use the word "shall" in the requirement section of the standards. The International Auditing and Assurance Standards Board (IAASB) initiated a Clarity Project to improve the clarity of its standards based on revised drafting conventions. The new format, which has been made applicable on 1st April 2008 and is also followed by India, incorporates the fundamental principles of the Standards of Auditing (SAs) in the Requirements section of each SA. The use of "shall", in the new standards, in place of "should" (Reference: ICAI Handbook of Auditing Pronouncements)" denotes unconditionally the mandatory responsibilities.

(iii) Finally, on the issue of non-compliance with the SAs and professional misconduct, the EPs replies are listed at paras 8.2 and 8.8. The reply at Para 8.8 is particularly interesting where he states that the job of an auditor must be judged on the basis of outputs and not on the quality of notings made. He goes on to say that civil servants and judiciary are given appropriate immunity under the law where decisions are made in good faith.

(iv) The analogy made by the EP in his reply at para 8.8 is misplaced and out of context. The output of his work is the moot point in question. The output required of an auditor of a Public Interest Entity (PIE), is absent and the same has been pointed out in the context of SAs. But the attitude of the EP is to vehemently deny all the charges on the

plea of him having taken audit decisions based on discussions which are neither recorded nor evidenced.

9.2 Non-recognition of interest costs on Borrowings classified as NPAs

(i) On the issue of lapses in accounting of Interest Costs and misunderstanding the definition of Effective Interest Rate (EIR), the replies of the EP have been listed in paras 8.3, 8.5 and 8.6. A perusal of replies on this issue shows that the EP has relied on the One Time Settlement (OTS) that the management was negotiating with the banks from which these loans were taken. In fact, the audit file and papers, which the EP took months to submit, carried no evidence of this OTS. Even during the personal hearing, the EP mentioned that he was in discussions with the management about this OTS, but did not document the discussions or document the proposed One Time Settlement scheme.

(ii) The EP in his reply dated 23.02.2022, relied on a Management Representation Letter (MRL) dated 24.06.2020 for non-recognition of interest costs on borrowings classified as NPAs by the lender banks. But as discussed in para 5.3 above, the MRL was not in line with the SAs, as it gave no plausible explanation as to why the interest costs were not accounted for, it was not on the letter head of the company and also the name or designation of the signing authority was not available. The MRL in its Para 3(iv) stated that "*provision for interest on bank borrowings not made as bank has classified bank borrowings as NPA.*" Above all, Para 13(e) of **the MRL talks about inventory records as on 30.09.2020 while the MRL itself was dated 24.06.2020,** i.e. two days before signing of the Audit Report by the EP. Quoting Para 13(e) of the MRL- ''Inventory *records have been properly reconciled, with the financial records and all the inventories as at 30th September 2020 are the property of the company and have been valued as per the existing and consisting accounting policy of the company in this regard.*'' All these discrepancies in the MRL were pointed out in para 4.1.3.C.iii of the SCN. The reply of the EP dated 27.07.2022 is completely silent on the shortcomings of this MRL. It is thus evident that, the EP realized he had taken a wrong plea when he tried to explain the issue through the MRL. It is totally unprofessional on the part of the EP to mislead us in such a manner.

(iii)As per the EP's reply quoted in Paras 8.5 and 8.6, the EP is of the view that "*when a borrower is unlikely to settle his loan obligations at contractual terms, because of financial problems, expected future cash flows associated with the loan will not be according to contractual terms, but based on the amount at which it **will** be settled.*" This is a completely flawed understanding and totally against the requirements of Ind AS 109. The Assumption of no future cash outflow on account of interest costs on the Borrowings classified as NPAs merely on the basis of a **proposal** for One Time Settlement is a flawed assumption. If such a rationale is accepted, then by analogy, the companies will resort to de-recognizing liabilities at will, which would lead to a systemic failure of accrual-based accounting. As VWL was not legally released from its primary responsibility of the interest liability on its Borrowings classified as NPAs,

Interest Costs liability of the company had to be accounted for until the financial liabilities were extinguished. (Refer Para 3.3.1 read with Para B3.3.1 of Ind AS 109)

(iv) Since VWL has classified its Borrowings from banks as subsequently measured at amortized cost, it is found that measurement of such amortized costs was not as per the Ind AS 109 requirements. This standard requires calculation of amortized cost with reference to the Effective Interest Method[5] (EIM). In applying the EIM, the company is supposed to estimate the expected cash flows, without considering the possible future lower cash outflows on account of lenders waiving off loans and/or interest. In the instant case, the company had included this future possibility into its cash flows and the auditor did precious little about the same. It is unprofessional for a professionally qualified CA to resort to such explanations which are **not** in accordance with Ind AS 109. Thus, the EP does not have a correct appreciation of Amortized Cost, EIR and EIM.

(v) Thus, we find that the EP has overlooked this important lapse in the accounts of the company, which has resulted not merely in understating the costs, but also overstating the profits of the company and thereby misstating financial statements of the company, which do not reflect true and fair view of financial statement as required by Section 129 of CA-13. But attitude of the EP is not that of accepting this mistake, but of flatly denying all charges on grounds which show that he has no understanding of the Ind AS or the SAs, which is fundamental for any auditor specially those auditing PIE[6].

9.3 <u>Lapses in Audit Documentation</u>

(i) On the issue of insufficiency of audit documentation, excerpts of the EP's replies are available at Para 8.4. Instead of explaining as to why his audit file is devoid of the requisite documentation, he has turned around and stated that NFRA is not in possession of any evidence to show that he had not discussed issues with the management. The EP blatantly goes on to say that he did not follow a system of minuting meetings. The EP further says that NFRA is grossly wrong in assuming that audit documentation is what will prove the correctness of an auditor's judgement and that NFRA is putting the '*cart before the horse*'.

(ii) The EP believes that there was no reason to maintain audit evidence and documentation on material issues and therefore based his opinion merely on discussions with the management. This cavalier and irresponsible attitude is alarming and shows the EP's lack of knowledge of the Standards and Procedures. This approach and attitude of EP militates against the fundamental objectives of SA 230[7], para 10 of which requires an auditor to document discussions of significant matters with management, those charged with governance, and others, including the nature of the significant matters discussed and when and with whom the discussions took place.

[5] Refer Appendix A of Ind AS 109 - definition of Effective Interest Method
[6] PIEs are those companies whose shares are listed in any stock exchange and are governed by Rule 3 of NFRA Rules, 2018.
[7] SA 230 deals with Audit Documentation

9.4 Non-appointment of EQCR

On the issue of non-implementation of quality control procedures, the response of the EP at para 8.7 is appalling. He flatly denies the requirement of para 19 of SA 220 and says that it is not mandatory to appoint an EQCR. Under the circumstances it would not be out of place for us to quote **Para 19(a) of SA 220** which states-

> *For audits of financial statements of **listed entities**, and those other audit engagements, if any, for which the firm has determined that an engagement quality control review is required, the engagement partner **shall** determine that an engagement quality control reviewer has been appointed*

Needless to repeat that VWL is a listed entity and thus it was mandatory for the auditor of VWL to engage an EQCR partner for review of the audit work.

10. Based on the replies given by the EP and the detailed analysis above, the charges and conclusions are as below:

i. CA Som Prakash Aggarwal committed professional misconduct as defined by Section 132 (4) of the Companies Act, read with Section 22 and clause 5 of Part I of the Second Schedule of the Chartered Accountants Act 1949 (as amended from time to time), which states that a CA is guilty of professional misconduct when he "fails to disclose a material fact known to him which is not disclosed in a financial statement, but disclosure of which is necessary in making such financial statement where he is concerned with that financial statement in a professional capacity".

   This charge is proved as CA Som Prakash Aggarwal failed to disclose in his report the material non-compliances the Company made, as explained in paras 9.1 to 9.4 above.

ii. CA Som Prakash Aggarwal committed professional misconduct as defined by Section 132 (4) of the Companies Act, read with Section 22 and clause 6 of Part I of the Second Schedule of the Chartered Accountants Act 1949 (as amended from time to time), which states that a CA is guilty of professional misconduct when he "fails to report a material misstatement known to him to appear in a financial statement with which he is concerned in a professional capacity".

   This charge is proved as CA Som Prakash Aggarwal failed to disclose in his report the material misstatements made by the Company in the area of non-recognition of interest costs pertaining to Borrowings classified as NPAs by the lender banks as explained in the paras 9.1 to 9.4 above.

iii. CA Som Prakash Aggarwal committed professional misconduct as defined by Section 132 (4) of the Companies Act, read with Section 22 and clause 7 of Part I of the Second Schedule of the Chartered Accountants Act 1949 (as amended from time to time), which states that a CA is guilty of professional misconduct when he "does not

exercise due diligence or is grossly negligent in the conduct of his professional duties".

This charge is proved as CA Som Prakash Aggarwal failed to conduct the audit in accordance with the SAs and applicable regulations as well as due to his failure to report the material misstatements and non-compliances made by the Company in its financial statements, as explained in the paras 9.1 to 9.4 above.

iv. CA Som Prakash Aggarwal committed professional misconduct as defined by Section 132 (4) of the Companies Act, read with Section 22 and clause 8 of Part I of the Second Schedule of the Chartered Accountants Act 1949 (as amended from time to time), which states that a CA is guilty of professional misconduct when he "fails to obtain sufficient information which is necessary for expression of an opinion or its exceptions are sufficiently material to negate the expression of an opinion".

This charge is proved as CA Som Prakash Aggarwal failed to conduct the audit in accordance with the SAs and applicable regulations as well as due to his failure to report the material misstatements and non-compliances made by the Company in the financial statements, as explained in the paras 9.1 to 9.4 above.

v. CA Som Prakash Aggarwal committed professional misconduct as defined by Section 132 (4) of the Companies Act, read with Section 22 and clause 9 of Part I of the Second Schedule of the Chartered Accountants Act 1949 (as amended from time to time), which states that a CA is guilty of professional misconduct when he "fails to invite attention to any material departure from the generally accepted procedure of audit applicable to the circumstances".

This charge is proved since CA Som Prakash Aggarwal failed to conduct the audit in accordance with the SAs (as explained in paras 9.1 to 9.4 above) but falsely reported in his audit report that the audit was conducted as per SAs.

vi. Therefore, we conclude that the charges of professional misconduct enumerated in the SCN dated 29.06.2022 stand proved based on the evidence in the Audit File, the Audit Report dated 26th June 2020 issued by EP, the submissions made by EP, the annual report of VWL for the FY 2019-20 and other materials available on record.

11. PENALTY under Section 132(4)(c) of the Companies Act, 2013

11.1 Section 132(4) of the Companies Act, 2013 provides for penalties in a case where professional misconduct is proved. The seriousness with which the Companies Act views proved cases of professional misconduct is evident from the fact that a minimum punishment is laid down by the law. While determining the penalty in this case, several factors have been considered.

11.2 Audited financial statements are the basic inputs for innumerable transactions in the economy. A breakdown, or severe damage, to the trust and confidence that the public and investors have in financial statements, would have ramifications that go far beyond the limited activities of an auditee company.

11.3 An auditor has a societal mandate to provide an independent and true opinion on the financials of the entity audited by him, so as to inspire trust and confidence in the financial system. As professionals, auditors are expected to judge the significance of the operations of the entity they audit and accordingly calibrate their approach and procedures. The auditor's duty of exercising due diligence is owed to the users of the financial statements. '*The objective of general-purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions relating to providing resources to the entity.... Those decisions involve decisions about:*

(a) buying, selling or holding equity and debt instruments

(b) providing or settling loans and other forms of credit/ or

(c) exercising rights to vote on, or otherwise influence, management's actions that affect the use of the entity's economic resources'[8]. Thus, the auditor is duty bound to examine and ascertain the integrity of financial statements of a PIE in larger public interest.

11.4 The primary function of the Auditor in the present case was to ensure compliance with SAs to achieve the necessary audit quality to lend credibility to financial statements and facilitate its users. A critical, questioning attitude, an unwillingness to be satisfied by superficial explanations, not concluding on material matters without rigorous verification, diligent and methodical cross verification, proper planning and the meticulous execution of the audit plan etc. are fundamental to audit quality. As detailed in this order, CA Som Prakash Aggarwal despite being a qualified professional, has not conducted the said audit on these parameters, not adhered to the standards and has thus not discharged the duty cast on him. Under the circumstances, we proceed to order the following sanctions keeping in mind deterrence, proportionality and the signalling value of sanctions.

12.1 In light of the proved professional misconduct by CA Som Prakash Aggarwal, the aggravating circumstances of such conduct, the nature of violations and applying the principles of proportionality, we order the following sanctions under Section 132(4)(c) of the Companies Act, 2013:

(i) Imposition of a monetary penalty of **₹ 3,00,000 (Three Lakhs only)** upon CA Som Prakash Aggarwal.

(ii) CA Som Prakash Aggarwal is debarred for **three years** from being appointed as an auditor or internal auditor or undertaking any audit in respect of financial statements or internal audit of the functions and activities of any company or body corporate.

[8] Para 1.2 of The Conceptual Framework of Ind AS

12.2 As detailed on pre pages, we find that CA Som Prakash Aggarwal has a poor understanding of Standards on Auditing and Ind AS. CA Som Prakash Aggarwal is therefore, advised to undertake training on Standards on Auditing and Ind ASs from ICAI or any institution recognized by the ICAI or equivalent International Institution and submit the proof of completion of such training to this Authority within one hundred eighty (180) days from the date of this Order becoming effective.

This order will become effective after 30 days from the date of issue of this order.

Sd/-
(Dr Ajay Bhushan Prasad Pandey)
Chairperson

Sd/-
(Praveen Kumar Tiwari)
Full-Time Member

Sd/-
(Smita Jhingran)
Full-Time Member

Authorised for Issue by the National Financial Reporting Authority

Date: 12.09.2022
Place: New Delhi

Vidhu Sood
Secretary-NFRA

सचिव / Secretary
राष्ट्रीय वित्तीय रिपोर्टिंग प्राधिकरण
National Financial Reporting Authority
नई दिल्ली / New Delhi

To,
CA Som Prakash Aggarwal, MRN No. 74813,
M/s S. Prakash Aggarwal & Co., Chartered Accountants,
ICAI Firm Registration Number: 06105C
4-A-6, Jawahar Nagar, Sri Ganga Nagar – 335001, Rajasthan

Copy to:-

(i) Secretary, Ministry of Corporate Affairs, Government of India
(ii) Securities and Exchange Board of India
(iii) Institute of Chartered Accountants of India
(iv) M/s Vikas WSP Limited
(v) IT-Team, NFRA for uploading the order on the website of NFRA