

**भारत सरकार / Government of India**  
**राष्ट्रीय वित्तीय रिपोर्टिंग प्राधिकरण /National Financial Reporting Authority**

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7<sup>th</sup> Floor, Hindustan Times House,  
Kasturba Gandhi Marg, New Delhi

No. 20012/2/2022

Date: 21.04.2023

**ORDER**

**In the matter of CA Naresh Kumar (ICAI Membership No. 085238) under Section 132(4) of the Companies Act 2013 read with Rule 11(6) of National Financial Reporting Authority Rules 2018.**

1. This Order disposes of the Show Cause Notice ('SCN' hereafter) of even no. dated 20<sup>th</sup> October 2022, issued to CA Naresh Kumar, partner of M/s Oswal Sunil & Company (ICAI Firm Registration No. 016520N), Delhi and the Engagement Partner ('EP' or the 'Auditor' hereafter) for the statutory audit of SRS Ltd ('the company' hereafter) for the Financial Year ('FY' hereafter) 2017-18.
2. This Order is divided into the following sections:
  - A. Executive Summary
  - B. Introduction & Background
  - C. Major Lapses in the Audit
  - D. Other Lapses in the Audit
  - E. Articles of Charges of Professional Misconduct
  - F. Penalty and Sanctions

**A. EXECUTIVE SUMMARY**

3. The National Financial Reporting Authority (NFRA hereafter) is India's independent regulator in respect of matters relating to accounting and auditing of prescribed class<sup>1</sup> of entities which can be broadly described as 'Public Interest Entities' (PIEs hereafter).
4. Following a letter received from the Serious Fraud Investigation Office (SFIO hereafter), Government of India, which had investigated into the affairs of SRS Ltd and its group companies, NFRA initiated action under Section 132(4) of the Companies Act (hereafter the Act) for investigating into professional or other misconduct of the statutory auditors of SRS Limited. SRS Ltd, a listed entity, is one of the companies within the SRS Group, which is in the business of Jewellery, Cinema, Real Estate, Financial Services etc. The SRS Ltd. went into Corporate Insolvency Resolution Process (CIRP hereafter) by an order dated 21.08.2018 of the Hon. National Company Law Tribunal (NCLT hereafter), Chandigarh Bench.

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<sup>1</sup> Rule 3 of NFRA Rules, 2018

5. M/s Oswal Sunil & Company (The Firm hereafter) was the Joint Statutory Auditor of SRS Limited for the FY 2017-18 and CA Naresh Kumar was the EP for this audit, being responsible for audit of 60.29% of the total assets of the company. This Firm and the EP were also the Joint Statutory Auditor of SRS Limited for the FY 2016-17 and had issued a qualified opinion. They were also engaged for limited review of the quarterly financial results (Interim Financial Results), required to be published as per SEBI LODR Regulations 2015, during the FY 2017-18 and had consistently issued 'Qualified' opinion on those financial results in spite of serious issues and questions regarding recoverability of trade receivables of overseas division, compliance with the provision of the Act relating to creation of Deposit Repayments Reserves and decline in the net worth due to write off of huge amount of trade receivables in the review report for Q3 of FY 2017-18.
6. Based on the perusal of the issues raised in the SFIO report and the preliminary examination of the financial statements of SRS Ltd., it was observed that there was a prima facie case for investigation and/or further action by the NFRA. The EP and the Audit Firm were instructed on 18.07.2022 to submit the Audit File and, based on its examination, an SCN dated 20.10.2022 identifying failures and negligences was issued to the EP in terms of Rule 11 of the NFRA Rules, 2018. In the interest of natural justice, the EP was also given a personal hearing on 02.02.2023.
7. The Audit lapses identified as a result of examination of the Audit File, related material on record and the personal hearing conducted, have been categorized into major lapses and other lapses and are discussed in section C and D respectively of this Order. These lapses relate to the EP's failure to identify and report material misstatements in the financial statements, standard of audit work performed falling way below the mandatory standards prescribed under the Act and required of an auditor of a Public Interest Entity (PIE). The EP's opinion that the financial statements reflected 'true and fair view' in accordance with accounting principles generally accepted in India and the provisions of the Act was found to be not supported by the appropriate audit evidence. The manner in which the audit was conducted, failed to meet the requirements of the SAs, the Act and the Code of Ethics in a number of significant aspects which demonstrated a serious lack of competence on the part of the EP.
8. The Order details how the EP ignored, during the course of the audit, several indicators of potential fraudulent transactions he was privy to such as unusually high provision for bad/doubtful debts in respect of trade receivables of ₹1,295.01 crores (99.85% of the total trade receivables), and substantial decline of ₹ 207.74 crores in the carrying amount of the inventories. However, the auditor failed to review these abnormal events for reporting under section 143 (12) of the Act, choosing to report only ₹ 10-11 crores of fraudulent transactions, which had already been reported by the company to stock exchanges.
9. The EP failed to demonstrate sufficiency and appropriateness of audit work in virtually every aspect of the audit of the financial statements i.e., Audit Strategy, Planning, Determining Materiality, Assessment of Risk of Material Misstatement and evaluating the audit results. The EP also failed to demonstrate compliance with the requirement of the Standards on Auditing concerning the Engagement Quality Control Review (EQCR) and submitted false information on the appointment of an EQCR who denied having played any such role.
10. The EP also ignored a number of indicators pointing to the abnormal state of affairs in the Company having adverse implications for the true and fair view of financial statements. The

EP failed to display professional scepticism and due diligence in forming his audit opinion in accordance with SA 570.

11. Finding him guilty of professional misconduct, this Order imposes on the EP, CA Naresh Kumar a monetary penalty of ₹ 300,000/- (Rupees Three Lakhs); and debars him for 3 (Three) years from being appointed as an auditor or internal auditor or from undertaking any audit in respect of financial statements or internal audit of the functions and activities of any company or body corporate.

## **B. INTRODUCTION & BACKGROUND**

12. The National Financial Reporting Authority ('NFRA' hereafter) is a statutory authority set up u/s 132 of the Companies Act 2013 to monitor implementation and enforce compliance with the auditing and accounting standards and to oversee the quality of service of the professions associated with ensuring compliance with such standards. NFRA is empowered u/s 132 (4) of the Act to investigate into professional or other misconduct committed by any member or firm of chartered accountants in respect of the prescribed classes of bodies corporate or persons, to exercise the powers vested in a civil court while trying a suit and impose penalty for professional or other misconduct of the individual members or firms of chartered accountants.
13. The statutory auditors, both individual and firm of chartered accountants, are appointed by the members of companies under section 139 of the Act. The statutory auditors, including the Engagement Partners (EP) and the Engagement team that conduct the audit are bound by the duties and responsibilities prescribed in the Act, the rules made thereunder, the Standards on Auditing ('SA' hereafter), including the Standards on Quality Control (SQC) and the Code of Ethics, the violation of which constitutes professional misconduct, and is punishable with penalty prescribed under section 132 (4) (c) of the Act.
14. NFRA received from the Serious Fraud Investigation Office (SFIO) a letter dated 31.08.2021 sharing the findings of their investigation into the affairs of SRS Ltd and the Group for necessary action against their statutory auditors. SRS Ltd is one of the companies within the SRS Group and was incorporated on 29.08.2000. SRS was a listed company and was delisted on 27.08.2021. The Group had presence in the sectors of Jewellery, Cinema, Real Estate, Financial Services etc. The investigation report by SFIO inter alia revealed that the Company and its Group Companies had presented financial statements containing false statement of debtors and indulged in the malpractice of round tripping and layering of transactions resulting in inflated purchases and sales. The company went under Corporate Insolvency Resolution Process (CIRP) by the orders of the NCLT, Chandigarh Bench dated 21.08.2018, on an application made by the State Bank of India following SRS' default on repayment of financial debt of ₹ 543.36 crores.
15. M/s Oswal Sunil & Company (Audit Firm hereafter) was the Joint Statutory Auditor of SRS Ltd for the FY 2017-18 and CA Naresh Kumar was the EP for this audit. As mentioned in the other matter section of the audit report, the Audit Firm was responsible for audit of 60.29% of the total assets of the company. They were also the Joint Statutory Auditor of SRS Limited for the FY 2016-17 and had issued a modified opinion. Also, for the FY 2017-18, they performed the limited review of quarterly financial results (Interim Financial Results), required to be published as per SEBI LODR Regulations 2015, and had consistently issued a 'Qualified'

opinion on those financial results on account of recoverability of the trade receivables of the overseas division of the Company, non-compliance with the provision of the Act relating to creation of Deposit Repayments Reserves and serious concerns about the erosion of net worth due to write off of huge amount of trade receivables in Q3 2017-18.

16. Vide letter dated 18.07.2022 NFRA called the Audit File from the EP and on his request granted extension of time for submission of the Audit File. The EP submitted the Audit File on 31.08.2022.
17. On examination of the Audit File and other relevant material available on record, and being satisfied that sufficient cause existed to take action under sub-section (4) of section 132 of the Companies Act 2013, a Show Cause Notice (SCN hereafter) was issued to CA Naresh Kumar on 20.10.2022 in terms of Rule 11 of the NFRA Rules 2018, asking him to show cause why action should not be taken against him for professional misconduct in respect of his performance as the EP on behalf of M/s Oswal Sunil & Company, the Statutory Auditor of SRS Ltd for the FY 2017-18. The EP was charged with professional misconduct of:
  - i. Failure 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 the CA is concerned with that financial statement in a professional capacity.
  - ii. Failure to report a material misstatement known to him to appear in a financial statement with which the CA is concerned in a professional capacity.
  - iii. Failure to exercise due diligence and being grossly negligent in the conduct of professional duties.
  - iv. 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.
  - v. Failure to invite attention to material departure from the generally accepted procedures of audit applicable to the circumstances.
18. The EP vide letter dated 19.11.2022 requested for extension of time for submission of reply and was granted extension up to 14.12.2022. The EP submitted his reply vide email dated 14.12.2022, which also contained some new working papers as additional evidence. The EP submitted that he had not been provided with full SFIO investigation report, MCA letter to SFIO and the letter of SFIO to NFRA. In this regard, it is noted that the EP had been provided as annexures to the SCN the relevant extracts of the SFIO investigation report that contained 1351 pages relating to the fraud and financial irregularities being investigated by SFIO in respect of entire SRS Group. The SCN also provided an opportunity for a personal hearing to the statutory auditor, which was availed by him on 02.02.2023.
19. We have perused all the material on record including the written and oral responses of the EP. The failures on the part of the EP to fulfil responsibilities relating to a Going Concern, Audit Documentation, EQCR and Suspected Fraud are identified as major lapses and are discussed in Part 'C' of this Order. Other lapses viz., failure to report noncompliance with Ind AS 36 Impairment of Assets, failure to Plan the Audit and Determine Materiality, and failure to comply with the requirements of Joint Audit etc., have been discussed in Part 'D' of this Order.

## Part C: MAJOR LAPSES IN THE AUDIT

### C.1 Lapses relating to Going Concern basis of accounting

20. The EP was charged with non-compliance with SA 570<sup>2</sup> which deals with auditor's responsibilities in the audit of financial statements relating to a 'Going Concern'. As on 31.03.2018, the Company had several adverse indicators in the financial statements that could raise significant doubts about the 'Going Concern' assumption. Such indicators included:

- i. A net loss of ₹1,460.87 crores in the FY 2017-18 and accumulated losses of ₹ 1,384.69 crores as on 31.03.2018.
- ii. Obligations towards fund-based borrowings aggregating to ₹1,007 crores and towards public deposits aggregating ₹89.03 crores.
- iii. Negative net worth of ₹ 977.40 crores.
- iv. Defaults in repayment of borrowings from banks amounting to ₹ 1,001.28 crores (Principal and Interest).
- v. Discontinuation of many business divisions.

Despite deterioration in the financial position as indicated above, the financial statements were prepared on the assumption that the entity was a 'Going Concern' and would continue its operations for the foreseeable future.

21. In his written reply, the EP submitted that he had performed the evaluation of the management's assessment of the Going Concern; that since the company was under CIRP and Hon. NCLT, Chandigarh Bench had ordered to continue the affairs of the company as a Going Concern, the preparation of accounts as Going Concern cannot be questioned. The EP stated that *"In our opinion, Management's assessment was subject to ample doubt but there was a silver lining as evident from revenue earned in cinema division, which was quite functional during the period of RP. The Co earned revenue from operations amounting to ₹ 26.43 crore, 21.28 crore and ₹ 17.00 crore in QE 30.06.18, 30.09.18 and 31.12.18, respectively."*

22. We have considered the reply of the EP and other relevant material on record and find that:

- i. There is no evidence in the Audit File of any assessment having been made by the EP of the Going Concern assumption. Para A3 of the Application and Other Explanatory Material to SA 570 is an illustrative list of events/conditions that cast doubt on the ability of an entity to continue as a Going Concern. The conditions listed in Para 20 above should have attracted the attention of the EP for performing well documented audit procedures towards the Going Concern status, and the fact that the EP did not do so is indicative of gross negligence and lack of professional skepticism.
- ii. The EP's reference to the 'Silver Lining' in the form of revenue from Cinema Division of ₹ 64.71 crores during the ensuing three quarters of 2018, in comparison to the substantially higher amount of financial liabilities of over ₹ 1,183.55 crores as on 31

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<sup>2</sup> Standard on Auditing 570, Going Concern (SA 570)

March 2018, reflects his poor understanding of the gravity of the matter and is an attempt at rationalization of his failures.

23. The EP's reference to the order of Hon. NCLT, Chandigarh Bench is also reflective of his poor understanding of the matter. The Hon. NCLT, Chandigarh Bench had ordered<sup>3</sup> that "*the Directors, personnel and the persons associated with the management shall extend all cooperation to the Interim Resolution Professional in managing the affairs of the 'Corporate Debtor' as a going concern*". This order was meant for management to assist the Interim Resolution Professional (IRP) in managing the affairs of the company as a Going Concern. It is inappropriate for the Auditors to take shelter behind this order to not follow the requirements of the applicable financial reporting framework. As per the Insolvency and Bankruptcy Board of India (IBBI) circular<sup>4</sup> dated 03.01.2018, a corporate entity undergoing insolvency resolution process needs to comply with the provisions of the applicable laws (acts, rules and regulations, circulars, guidelines, orders, directions, etc) during such process. In fact, we notice that the EP himself had questioned the preparation of financial statements on Going Concern basis by issuing a Qualified Opinion stating that "*Conditions indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as going concern and therefore the Company may be unable to realize its assets and discharge its liabilities in the normal course of business*". This clearly indicates that the EP was doubtful about the company as a Going Concern. Paragraph 21 of SA 570 clearly requires that if the financial statements have been prepared using the going concern basis of accounting but, in the auditor's judgment, management's use of the going concern basis of accounting in the preparation of the financial statements is inappropriate, the auditor shall express an adverse opinion. There is no evidence in the Audit File that the EP had applied professional scepticism to the management's use of the going concern basis and of the EP forming his opinion in accordance with paragraph 21 of SA 570. This is despite the fact that the EP was aware that there were serious concerns about the going concern basis of the company, which had actually gone into CIRP, and an IRP had also been appointed. We find that this is serious lapse of the EP as an audit opinion expressed in the audit report holds a very high value being an assurance to the stakeholders about the true and fair position of the financial statements. The auditor's failure to exercise due diligence and due professional care in order to give an appropriate audit opinion in accordance with the SAs and other applicable laws is not just a violation of the fundamental principles of *professional competence* and *due care* stated in the Code of Ethics<sup>5</sup> but is also an act of breach of trust and misleading the users of the financial statements.
24. It is also relevant to mention that paragraph 23 of SA 570 requires that if adequate disclosure about the material uncertainty is not made then the auditor shall express a qualified opinion or adverse opinion, as appropriate, in accordance with SA 705. In terms of paragraph 7 and 8 of SA 705 an auditor shall express an adverse opinion if the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements are both material and pervasive to the financial statements. In other words, while the Audit File should provide adequate justification for the EP going for either qualified or adverse opinion in accordance with SA 705, there is nothing in the Audit File to support the EP going for a qualified audit opinion without determining whether the material uncertainty was also pervasive. We therefore find the reply

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<sup>3</sup> Order number CP (IB) No.201/Chd/Hry/2018 dated 21.08.2018

<sup>4</sup> IBBI circular no. IP/002/2018 dated 03.01.2018.

<sup>5</sup> Code of Ethics 2009, issued by ICAI.

and explanation of the EP unacceptable and conclude that he was grossly negligent in performing his duty in accordance with both SA 570 and SA 705.

**C.2 Lapses in Audit Documentation: Failure to comply with the requirements of SA 230<sup>6</sup> and SQC-1<sup>7</sup>**

25. The EP was charged with failure to adhere to the responsibilities relating to audit documentation as required by SA 230 read with para 75 of SQC-1, which requires a duly and timely preparation of audit documentation, including who performed the audit procedures, when such audit procedures were performed, who reviewed the audit work, what discussion of significant matters took place with management & TCWG etc. and the assembly of the Audit File within 60 days after the date of the auditor's report.
26. Responding to these charges, the EP stated that "*Soft data maintained in respect of audit work carried is attached (Annexure R-27, R-28) (Page no. 145 to 154) in excel sheet, showing names of audit team, work done, dates etc. Work done was reflected in Audit Observations which were revised and updated several times, as an ongoing process*". However, the EP admitted in the oral hearing that the Audit File was not assembled and archived within the stipulated time of 60 days of the audit report. Based on the date of audit report of 06.02.2019, the Audit File must have been archived by 07.04.2019.
27. Our analysis of the EP's reply and other related material shows that:
- i. The audit work papers were deficient in many respects, including the caption of work paper, date, signature of maker/checker etc. as seen from Exhibit 1 and Exhibit 2 annexed with this order.
  - ii. The Audit File lacked many significant and critical working papers like:
    - a. Audit Plan and Audit Programme;
    - b. Working papers for setting materiality and performance materiality;
    - c. Auditor's evaluation of the appropriateness of management's use of the going concern assumption;
    - d. Auditor's assessment of the fraud risk in the company;
    - e. Details of the EQCR, its team and the review work performed by the EQCR;
    - f. Minutes of the meetings of the members of engagement team with joint auditors, with management and the TCWG.
  - iii. Annexure R-27 & R-28 referred to by the EP in his reply and reproduced here as Exhibit 3 and Exhibit 4 annexed with this Order, are sheets of work progress report with the name and the initials of the members of the engagement team who carried out that procedure. We note that one member of the team viz. Mohit Modi has totally different signatures in these two papers relied upon by the EP. When pointed out at the time of oral hearing, the EP looked amused and actually started laughing, showing not only his irresponsible attitude to such grave irregularities but the possibility that the audit work papers have been tampered with thereby raising serious doubts regarding the integrity of the Audit File and the audit work it represents. Internationally too, such conduct is regarded as a serious misconduct and we note that in a number of cases the

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<sup>6</sup> Standard on Auditing 230, Audit Documentation (SA 230)

<sup>7</sup> Standard On Quality Control, Quality Control for Firms That Performs Audit And Reviews Of Historical Financial Information, And Other Assurance And Related Services Engagement (SQC 1)

PCAOB<sup>8</sup>, the U.S. Regulator, has taken penal actions against the auditors for tampering with the Audit Files subsequent to the date of audit report and/or archival of the Audit File.

28. Appropriate & timely documentation of the audit procedures performed, audit evidence obtained, conclusions drawn by the auditor and the archival of the complete audit documentation within a reasonable time are the backbone of the integrity of audit. It is the audit documentation which acts as evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements. Further, the audit documentation acts as the basis for the audit opinion expressed in the audit report. Inadequate and improper documentation and non-archival of Audit File within the stipulated time, as admitted by the EP in the oral hearing, are glaring and serious deficiencies in performing an audit. Inadequate, improper documentation and non-archival of Audit File within the stipulated time is a serious deficiency in performing an audit. In absence of proper audit documentation, there is no way for us to ascertain whether the required audit procedures were performed at all. Therefore, we are left with no option but to draw a conclusion that the audit work as claimed was not performed. In light of this, we find the reply and explanation of the EP unacceptable and conclude that the EP was grossly negligent in performing his duty in accordance with SA 230.

### C.3 Lapses in duties related to Engagement Quality Control Review (EQCR) Partner

29. Noting that there was no formal appointment of an EQCR, even though the Company was a listed company, the SCN charged the EP was with failure to adhere to the duties related to EQCR, as required by para 19 (a), (b) and (c) of SA 220,<sup>9</sup> which state that for the audits of financial statements of listed entities, the EP shall determine that an EQCR has been appointed; that he shall discuss the significant matters arising during the audit engagement with the EQCR; and that the EP shall not date the auditor's report until the completion of the engagement quality control review.
30. In his written reply and in the oral hearing, the EP submitted that Sunil Bhansali, Promoter Partner in M/s Oswal Sunil & Company was the EQCR partner, and that he had held detailed discussions with him in the course of the audit engagement. However, during the oral hearing held on 02.02.2023, Sunil Bhansali clearly stated that he was not the EQCR but had helped the EP in this audit. Sunil Bhansali confirmed this again vide his email dated 05.02.2023 stating that *he cannot be said to be the EQCR for the engagement*. In light of these facts, it is clear that the EP made false statement to NFRA.
31. In the audit of financial statements of a listed entity, the role of an EQCR is important for ensuring quality, as the EQCR evaluates the significant judgments made by the engagement team and the related conclusions reached in forming the overall audit opinion. By failing to determine the appointment of the EQCR in the audit of a listed entity, the EP has seriously compromised the quality of the audit process and its outcome. The submissions and misleading statements by the EP relating to the appointment of the EQCR, which amounts to false evidence, is also a breach of the *fundamental principles* of "Integrity" and "Professional Behaviour" enshrined in the *Code of Ethics* issued by Institute of Chartered Accountants of India.

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<sup>8</sup> KPMG Assurance and Consulting Services LLP and Sagar Pravin Lakhani (Dec 2022), KPMG Singapore- Tan Joon Wei (2021), Deloitte LLP Canada (2021), BDO-Mexico (2019), Deloitte Brazil (2016)

<sup>9</sup> Standard on Auditing 220, Quality Control for an Audit of Financial Statements (SA 220)



32. In light of this, we find that the EP not only showed gross negligence in performing his duty in violation of SA 220, but is also guilty of submitting false and misleading information to the NFRA.

#### **C.4 Suspected Fraud: Lapses in fulfilling auditor's responsibilities**

33. The EP was charged with failure to adhere to the responsibilities relating to fraud/suspected fraud as required by para 16 and 24 of SA 240,<sup>10</sup> which states that while performing risk assessment procedures, the auditor shall perform the procedures to obtain information for use in identifying the risks of material misstatement due to fraud; and that the auditor shall evaluate whether the information obtained from the other risk assessment procedures and related activities performed indicates that one or more fraud risk factors are present.
34. In his written reply, the EP submitted that he had carried out analytical procedures, substantive testing and made a checklist regarding fraud. In the oral hearing, the EP stated that he had carried out the required procedures, but they are not documented in the Audit File as he had submitted only a part of Audit File to NFRA.
35. We find that the reply and explanation given by the EP are misleading as there is no documentation in the Audit File to show that analytical procedures and substantive testing were performed by the EP as required by SA 240 despite some strong indications of unusual and suspicious activities as follows:
- i. There was a drastic decline in the inventory level from ₹ 208.22 crore on 1 April 2017 to ₹ 0.48 crore on 31 March 2018
  - ii. Huge provisions were made against the Trade Receivables during the preceding year (₹ 93.16 crore), which had increased dramatically to ₹ 1295.01 crore in 2017-18.
  - iii. The Company had filed a report with BSE/NSE in May 2018 that its chairman had been arrested for fraud.
  - iv. There was no evidence of physical verification of the Property, Plant and Equipment of ₹ 88.07 crore.

Further, the checklist referred to by the EP in his reply to the SCN, is without any date or signature of maker/checker rendering the authenticity and integrity of the checklist doubtful.

36. An auditor is duty bound to exercise due professional care and professional skepticism in performance of the audit that includes a questioning mind and a critical assessment of the audit evidence. More so, since the audit firm and the EP were the auditors of the company for the previous FY i.e., 2016-17 also, they were privy to the operations and goings on in the company and were therefore required to be more alert and vigilant to the existence of fraud risk factors.
37. We find that the EP had reported, in clause (x) of CARO report, that the company had intimated the stock exchanges regarding the fraud/default by the promoters/key management persons/entity involving estimated amount of ₹ 10-11 crores. However, we note the EP had ignore other strong indicators of potential fraud. We note that the company had provided for unusually high amounts of doubtful debts (under Trade Receivables) of ₹1295.01 crores as on

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<sup>10</sup> Standard on Auditing 240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statement (SA 240)

31 March 2018 compared to ₹ 93.16 crore in the previous FY 2016-17. The Audit File has no evidence that the EP applied professional skepticism to probe and report on the potential fraud reflected by such huge amounts of provisioning and its eventual write off. Similarly, we find that there was a drastic decline in the inventory from ₹ 208.22 crore to ₹ 0.48 crore only (decline of 99.76%) but there is no evidence in the Audit File of a sound audit examination of the reasons of this decline. The EP in his reply has mentioned about the write off of the inventory of only ₹ 8.65 crores out of the total decline of ₹ 207.74 crores, but failed to offer any explanation about the remaining amount of ₹ 199.09 crores. Both these events led to the net worth of the company turning into a negative (minus ₹ 977.4 crores as of 31.03.2018) as against positive net worth of ₹ 483.46 crores as of 31.03.2017. As discussed in paragraph 50 subsequently, the EP also failed to evaluate the possibility of fraudulent transactions in Property, Plant and Equipment (PPE) of ₹88.07crores as of 31.03.2018, which accounted for 59.38 % of the total PPEs of the company, arising out of absence of internal controls for PPE. All these adverse indicators in the financial affairs of the company should have aroused the EP's suspicion and professional scepticism about the possibility of fraud in the company. However, instead of performing detailed audit procedure in the matter the EP made a casual and irresponsible statement in his audit report that *"Based upon the audit procedure performed... .., we are unable to comment whether or not there was any fraud by the company or on the company by its officers or employees."*

38. We also note that the EP had also issued quarterly review reports on internal financial results of the Company for the three quarters viz. 30.06.2017, 30.09.2017 and 31.12.2017 during the FY 2017-18. These quarterly review reports were qualified on account of uncertainty about recovery of trade receivables, and non-compliance with the provisions of the Act relating to creation of deposit repayment reserves and highlighted the company's difficulties in repaying the Bank's credit facilities. More importantly, the quarterly review report dated 13.02.2018 for the quarter ending 31.12.2017 was qualified on account of erosion of net worth due to write off of huge amount of trade receivables of ₹ 825.34 crores. It is evident that the EP was aware of these strong indicators of serious mismanagement and potential fraudulent transactions in the company much before the knowledge of FIR against Chairman of the Company on 06.03.2018. However, these failed to arouse his suspicion and initiate steps required under section 143 (12) of the Act read with Rule 13 of Companies (Audit and Auditors) Rule 2014 to report the matter to the Central government. Instead, the only report the EP made to the Central Government through ADT-4 filing dated 10.12.2018 was that he became aware that the company had intimated to the stock exchanges on 07.05.2018 that a fraud had been committed by the promoters/key management persons/entity.

39. It is important to note that the EP's responsibility does not end merely by filing an ADT-4 simply copying the intimations given by the company to the stock exchanges and he cannot take shelter to hide his gross negligence. We find that the EP displayed gross negligence and complete lack of due diligence in ignoring strong indicators of potential fraud and thereby not fulfilling his responsibility under section 143 (12) of the Act and his duty in accordance with SA 240.

#### **Part D: OTHER LAPSES IN THE AUDIT**

##### **D.1 Failure to comply with the requirements of Joint Audit**

40. The EP was charged with failure to adhere to the responsibilities relating to joint audit as required by para 2 and para 3 of SA 299,<sup>11</sup> which state that the joint auditors shall mutually

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<sup>11</sup> Standard on Auditing 299, Responsibility of Joint Auditors (SA 299)

discuss and divide the audit work between themselves in terms of audit of identifiable units or specified areas and this division should be adequately documented.

41. In his written reply, the EP submitted that the work was divided mutually between the joint auditors and also annexed a copy of an e-mail dated 29.07.2017 showing the division of work. In the oral hearing, the EP stated that the document related to mutual division of work was signed during the joint statutory audit of the company for the previous FY i.e., 2016-17, and admitted that no such document was signed for audit year 2017-18 and made part of the audit documentation.

42. Our analysis of the replies by the EP and related documents shows that:

- i. In accordance with the requirement of para 2 and para 3 of SA 299, the EP was professionally duty bound to document the division of work between the joint auditors and the areas of work to be covered by them. But no such documents were found in the Audit File. The document attached by the EP with the email dated 29.07.2017 at Exhibit 5 annexed with this order, is a generic document and does not reflect the detailed division of the audit work between the joint auditors as required by SA 299. Further, the said document does not bear any seal and signature of the joint auditors thereby raising serious doubts about the genuineness, integrity and reliability of such an important document.
- ii. The statement of EP that the document related to mutual division of work was signed in the previous FY i.e., 2016-17 is not supported by any document in the Audit File and is irrelevant to this case as it does not pertain to the audit year under consideration.
- iii. The EP in his deposition before SFIO has stated that the work distribution between the joint auditors was decided by Mr. Anil Jindal, Chairman and Managing Director of SRS Ltd, and it was agreed upon by the joint auditors. In view of this and in the absence of any evidence that the joint audit was mutually decided, it is evident that the EP compromised with the basic principle of independence of the auditor by surrendering to the dictates of the Company's management in utter disregard of the responsibility cast on the joint auditors. Accordingly, we find him guilty of gross negligence by not adhering to the requirements of SA 299.

#### **D.2 Failure to comply with the requirements of SA 300<sup>12</sup> and SA 320<sup>13</sup>**

43. The EP was charged with failure to develop and document the audit plan and audit strategy that set the scope, timing, and direction of the audit as required by SA 300 and with failure to determine materiality for the financial statements as a whole while establishing the audit strategy as required by SA 320.

44. Responding to the charge related to SA 300, the EP stated that they had prepared the audit plan and programme and also attached them as annexure R-25 and R-26 in the reply to the SCN. In respect of the charge related to SA 320, the EP stated that due to the closure of the retail and jewellery segments of the company, the total assets were considered as benchmark for

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<sup>12</sup> Standard on Auditing 300, Planning an Audit of Financial Statements (SA 300)

<sup>13</sup> Standard on Auditing 320, Materiality in Planning and Performing an Audit (SA 320)

determining materiality; and that the overall materiality was set at 1% of the total assets and the performance materiality was set at 75% of the overall materiality. In the oral hearing, the EP stated that the evidence for setting of materiality is present in the Audit File of the other joint auditor and not in his Audit File.

45. We have considered the reply and explanation given by the EP and find that these are false and misleading as there is no documentation in the Audit File with reference to audit plan, audit strategy and setting of materiality. Further, the statement of the EP that the evidence for setting of materiality is present in the Audit File of the other joint auditor is also false and mischievous as the Audit File of the other joint auditor, also in custody of NFRA, does not contain any document for setting materiality.
46. The preparation of the audit plan and strategy by the auditor is a fundamental building block of an audit. Further, determining materiality is of such critical importance in an audit that para 10 and 11 of SA 320 use the expression 'shall' to put the unconditional obligation on the part of the auditor to determine materiality. By failing to plan the audit and set materiality, the EP has exhibited a casual and cavalier approach towards the audit of a listed entity that involves public interest. We therefore find that the EP has shown gross negligence and complete lack of due diligence in performing his duty and has therefore failed to comply with the requirements of SA 300 and SA 320.

### **D.3 Failure to report noncompliance with Ind AS 36- Impairment of Assets**

47. The EP was charged with failure to report noncompliance with Ind AS 36 Impairment of Assets. Ind AS 36 provides that an asset is impaired when its carrying amount exceeds its recoverable amount<sup>14</sup>. Recoverable amount is the higher of its fair value less costs of disposal (FVLCD) and its value in use (VIU)<sup>15</sup>. SRS Ltd had investments of ₹ 26.66 crores and ₹ 0.10 crores in the unquoted shares of its wholly owned subsidiaries SRS Entertainment India Ltd and SRS Smart Retail Ltd respectively. These subsidiaries were loss making and therefore, there were indicators of impairment which required impairment testing to be done for the investments made in them. But no such impairment testing was done by the company and the EP failed to report this non-compliance with Ind AS 36 in his audit rep<sup>48</sup>. Responding to these charges, the EP in his written reply stated that there were no reasons to impair the investment in the subsidiaries on the following grounds:
- i. The auditor of SRS Entertainment India Ltd did not give any qualification in respect of going concern and net worth.
  - ii. The EP was made available an agreement between SRS Ltd, SRS Entertainment India Ltd and Carnival Films Private Ltd wherein Carnival Films Private Ltd had proposed to acquire 59 screens of SRS Ltd and SRS Entertainment India Ltd for ₹ 210 crores in which 12 screens pertained to SRS Entertainment India Ltd. The figure of ₹ 210 crores was apportioned between the SRS Ltd and SRS Entertainment India Ltd by the EP and the other joint auditor on the basis of the number of seats. On the basis of this apportionment, the recoverable amount of SRS Entertainment India Ltd comes to ₹ 40.32 crores, whereas the carrying value of investment in SRS Entertainment India Ltd is ₹ 26.66 crores.

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<sup>14</sup> Para 8 of Ind AS 36

<sup>15</sup> Para 6 of Ind AS 36

- iii. The carrying amount of investment in SRS Smart Retail Ltd is ₹ 0.10 crores which is less than the “clearly trivial” level and therefore not considered in the course of audit.

48. Our analysis of the EP’s reply and other relevant material shows that:

- i. The EP was required to independently obtain sufficient and appropriate evidence which enables him to arrive at a conclusion and support his opinion. The fact that the auditor of SRS Entertainment India Ltd, a loss making company, did not give any qualification in respect of Going Concern and net worth does not discharge the EP from his statutory and professional responsibility of obtaining sufficient and appropriate evidence regarding impairment testing of the subsidiaries when there is an indicator of impairment.
- ii. The agreement as referred in the para 47 (ii) above, was a mere Memorandum of Understanding (MoU), which cannot be considered binding and as sufficient and appropriate audit evidence for not performing the impairment test.
- iii. There is no documentation in the Audit File to support the reply of the EP with reference to:
  - a. The agreement referred to in paragraph 47 (ii) above.
  - b. EP’s working related to the apportionment of the ₹ 210 crores between SRS Ltd. and SRS Entertainment India Ltd. or any other valuation report.

49. In light of the above, we find the reply and explanation of the EP is an afterthought to mislead NFRA which cannot be accepted, and the EP is found to be grossly negligent in not reporting non-compliance with Ind AS 36.

#### **D.4 Failures in Evaluation of Property, Plant and Equipment (PPEs)**

50. Noting that there was no evidence in the Audit File that the EP had performed any audit procedures related to the physical verification and valuation of PPEs of the company amounting to ₹ 88.07 crores, the EP was charged with violation of Para 15 and 16 of SA 200<sup>16</sup> and Para 6 of SA 500<sup>17</sup>. Para 15 of SA 200 requires an auditor to plan and perform an audit with professional skepticism, recognizing that circumstances may exist that cause the financial statements to be materially misstated. Para 16 of SA 200 requires an auditor to exercise professional judgment in planning and performing an audit of financial statements. Para 6 of SA 500 requires an auditor to design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.

51. Responding to these charges, the EP in his written reply stated that physical verification of PPE having net block of ₹ 88.05 crore was not done during the FY ended 31.3.2018 and made the following additional points:

- i. ICAI Guidance Note on Companies (Auditor's Report) Order, 2016 (CARO) states that “*the clause requires the auditor to comment whether the fixed assets of the company have been physically verified by the management at reasonable intervals. The clause further requires the auditor to comment whether any material discrepancies were noticed on such verification and if so, whether those discrepancies have been properly dealt with in the books of account.*”

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<sup>16</sup> Standard on Auditing 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing (SA 200)

<sup>17</sup> Standard on Auditing 500, Audit Evidence (SA 500)

*Physical verification of the assets is the responsibility of the management and, therefore, has to be carried out by the management itself and not by the auditor.”;*

- ii. he had commented about the matter in the CARO report for the FY 2018-19;
  - iii. he had sent an email dated 14.11.18 to State Bank of India (SBI) seeking confirmations of the original deed of the immovable properties held by SBI but the confirmation was not received as on the date of audit report.
52. We note that the Company itself had declared in Note 42 to the financial statements that physical verification of PPEs aggregating to ₹ 88.07 crore could not be carried out at certain locations. Instead of taking this as a cue for further audit procedure, especially in view of the numerous red flags about corporate violations discussed in this Order, the only comment made by the EP in the Audit Report in this regard was that PPEs amounting to ₹ 1380 lakhs were written off. In the CARO Report attached as Annexure A to the Audit Report, the EP repeated the disclosure by the Company about the lack of physical verification of the PPEs. In his Report on the Internal Financial Control attached as Annexure B to the Audit Report the EP had mentioned about the lack of internal financial control over physical verification of fixed assets and inventories. However, there is nothing in the Audit File to indicate if any analysis was done based on these indicators and if any findings were reached based on this analysis in respect of the PPEs. Therefore, there is no evidence of the EP’s compliance with SA 200 and SA 500. Our analysis of the specific points made by the EP and related documents shows that:
- i. Para 2 of CARO states that “*Every report made by the auditor under section 143 of the Companies Act, 2013 on the accounts of every company audited by him, to which this Order applies, for the financial years commencing on or after 1st April, 2015, shall in addition, contain the matters specified in paragraphs 3 and 4, as may be applicable*”. The use of the term “*shall in addition*” makes it clear that the requirements as specified in CARO are in addition to the requirement as specified in SAs, Laws and Regulations. CARO does not replace the requirements of SAs; it rather supplements the SAs in the interest of the users of the financial statements. The CARO, therefore, does not relieve the EP from his professional and statutory responsibilities specified under SA 200 and SA 500.
  - ii. The comment made by the EP in respect of the CARO report for the FY 2018-19 holds no relevance as the FY under consideration in the SCN and in this Order is 2017-18.
  - iii. The e- mail to SBI by the EP, as mentioned in para 51 (iii) above, was sent on 14.11.18 and the date of audit report is 06.02.2019 suggesting that the email remained un-replied for almost 3 months. There is no evidence of any follow up by the EP, even though the relevant branch of SBI is situated barely 4 kilometres away from the registered office of the EP.
  - iv. The audit engagement of SRS Ltd was conducted when the Company had gone into the insolvency and there were tell-tale signs of high inherent risk, including fraud risks, related to the assets of the Company including the PPEs, the amount of which (₹ 88.07 crores) was material. These PPEs were a major source for repayment of dues to lenders and other stakeholders of SRS Ltd. Such a situation required high degree of professional skepticism and judgement in planning and performing the audit as required by Para 15 and Para 16 of SA 200, which we find was woefully lacking in the audit procedure performed by the EP.

53. In light of the above analysis, we find the reply and explanation of the EP unacceptable and find him to be grossly negligent in not performing his duty in accordance with SA 200, SA 500 and SA 705.

#### **D.5 Failures to perform duties with respect to unusual transactions**

54. The EP was charged with failure to perform duties with respect to unusual transactions, for example, 99.76% decline in the inventory from FY 2016-17 to FY 2017-18 and provisioning of doubtful debt to the tune of 99.99% of the trade receivable of ₹ 1290.27 crores in the FY 2017-18 in the gold and jewelry segment of SRS Ltd., which was in violation of para 28 of SA 315<sup>18</sup>, para 16 of SA 550<sup>19</sup> and para 32 (c) of SA 240<sup>20</sup>.
55. Para 28 of SA 315 requires an auditor, in judging whether a risk is a significant risk, to see whether the risk involves significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual. Further, EP's assessment of risk of material misstatement may change during the course of the audit due to new audit evidence or information which may be inconsistent with the audit evidence on which the EP based his original assessment, the auditor shall revise the assessment and modify the planned audit procedures accordingly. Para 16 of SA 550 requires an auditor to inquire with the management, the nature of the transactions and whether related parties could be involved in case the auditor identifies significant transactions outside the entity's normal course of business when performing the audit procedures. Para 32 (c) of SA 240 requires an auditor, for transactions that appear to be unusual, to evaluate whether the business rationale (or the lack thereof) of the transactions suggests that they may have been entered into, to engage in fraudulent financial reporting or to conceal misappropriation of assets.
56. Responding to these charges, the EP in his written reply stated that he had duly performed the evaluation of likelihood of misappropriations and also attached some working papers to support his claims. The EP also quoted para 5(d) of his audit report where he gave qualification in respect of the write offs/provisions related to inventory and receivables.
57. Our analysis of the EP's reply and other related material shows that the reply and explanation given by the EP are misleading as there is no documentation in the Audit File on working related to risk assessment, inquiry with the management with respect to the involvement of related parties and evaluation of the business rationale of the unusual transactions as required by the SAs. Further, the work papers referred to by the EP in his reply to the SCN, though liable to be rejected, fall miserably short of the audit procedures required to be performed by the EP as mandated in SA 315, SA 550 and SA 240.
58. As said by Lord Alverstone, Chief Justice, in his address to the Jury in the case reported at [1904] 31 Accntt. LR 1 London Oil Storage Co. Ltd. v. Seear, Hasluck and Co., "*He (auditor) is not, however, supposed to be a man constantly going about suspecting other people of doing wrong ..... If circumstances of suspicion arise, it is the duty of the auditor, in so far as those circumstances relate to the financial position of the company, to probe them to the bottom....*".

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<sup>18</sup> Standard on Auditing 315, Identifying and Assessing the Risk of Material Misstatement Through Understanding the Entity and Its Environment (SA 315)

<sup>19</sup> Standard on Auditing 550, Related Parties (SA 550)

<sup>20</sup> Standard on Auditing 240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statement (SA 240)

In the light of the unusual circumstances prevailing in the company, the EP should have performed more detailed work instead of carrying out a perfunctory audit.

59. There is no adequate documentation in the Audit File which supports the EP's reply and explanation on the charge of his failure to perform duties with respect to unusual transactions. Therefore, his reply cannot be accepted, and we find him negligent in performing his duty and thus failing to comply with SA 315, SA 550 and SA240.

#### **D.6 Non-compliance with provisions of the Companies Act 2013:**

60. The EP was charged with failure to comply with Section 143 (9)<sup>21</sup> of the Companies Act, 2013 which requires that every auditor shall comply with the SAs.
61. Responding to the charge, the EP in his written reply stated that the Auditing Standards are a set of guiding principles, and he has complied with the SAs in letter and spirit while conducting the audit of SRS Ltd.
62. From our analysis of the EP's reply and other related material we find that:
- i. The reply and explanation given by the EP are baseless and misleading in the view of the errors and omissions mentioned in the foregoing paragraphs of this Order wherein the non-compliance with various SAs stands proved.
  - ii. It is also critical to note that the new format of SAs, in effect since 1st April 2008, have replaced the expression 'Should' with 'Shall' in the main requirements of the SAs, in line with the change in the International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB) pursuant to its clarity project. In view of this, there is no merit in the irresponsible and unprofessional averment of the EP that the SAs are simply a set of guiding principles. Rather, they are mandatory obligations on the part of auditor.
63. Thus, the reply and explanation of the EP cannot be accepted, and we find that the EP was grossly negligent in performing his duty and therefore violated Section 143 (9) of the Companies Act, 2013.

#### **D.7 Failure to report non-compliance with Ind AS 105:**

64. The EP was charged with failure to report non-compliance with Ind AS 105<sup>22</sup> which requires the company to disclose the analysis of the revenue, expenses and pre-tax profit or loss of the discontinued segments.
65. The EP in his written reply stated that the details of the revenue and expenses of the discontinued segments were given in note 44 to 44.3 of the standalone financial statements. The EP qualified his audit opinion in respect of the PPEs, inventory, trade receivables and loans and advances related to discontinued segments and also reported the weakness in the internal financial control in his audit report.

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<sup>21</sup> Section 143 (9): Powers and duties of auditors and auditing standards.

<sup>22</sup> Indian Accounting Standard 105, Non-current Assets Held for Sale and Discontinued Operations (Ind AS 105)



66. In light of the reply of the EP, the charge stands dropped.

#### **D.8 Inadequate disclosure under Companies (Auditor's Report) Order, 2016**

67. The EP was charged with inadequate disclosure under CARO wherein the EP failed to report the periods of defaults in repayment of loans or borrowings to financial institutions, banks, government, or dues to debenture holders.

68. Responding to these charges, the EP in his written reply stated that there was a mismatch between the details of the default in principal and interest as given in note 20.1 of the standalone financial statements and the details of the claims available with the IRP and that the reconciliation was not completed till the date of audit report and that he had qualified this matter of non-reconciliation in para 5(b) his audit report.

69. In light of the reply of the EP, the charge stands dropped.

#### **E. ARTICLES OF CHARGES OF PROFESSIONAL MISCONDUCT**

70. Given the above-mentioned actions and omissions, it is established that CA Naresh Kumar, EP, showed gross negligence and lack of due diligence. The EP has been found to be grossly negligent in his professional duties by not adhering to the requirements laid down by the Companies Act, 2013 and relevant Standards on Auditing. This has led to the issuance of an audit report not backed by valid audit evidence and absence of quality in the audit work. Specifically, the following failures on the part of CA Naresh Kumar, EP, as contained under the Articles of Charges in the SCN are established:

- a) CA Naresh Kumar 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 (no. 38 of 1949) as amended from time to time, which states that an EP is guilty of professional misconduct when he *“fail to disclose a material fact known to them 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 the EP failed to disclose in their report the material non-compliances the company made as explained in C and D above (except for the dropped charges).

- b) CA Naresh Kumar 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 (no. 38 of 1949) as amended from time to time, which states that an EP is guilty of professional misconduct when he, *“Fail 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 the EP failed to disclose in his report the material misstatement the company made as explained C and D above (except for the dropped charges).

- c) CA Naresh Kumar 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 (no. 38 of 1949) as amended from time to time, which states that an EP is guilty of professional misconduct when he, “does not exercise due diligence, and being grossly negligent in the conduct of professional duties”.

This charge is proved as the EP failed to conduct the audit in accordance with the SAs and applicable regulation, failed to report the material misstatements in the Financial Statement and failed to report non-compliance made by company, as explained C and D above (except for the dropped charges).

- d) CA Naresh Kumar 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 (no. 38 of 1949) as amended from time to time, which states that an EP 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 the EP failed to conduct the audit in accordance with the SAs and applicable regulation, as well as due to their total failure to report the material misstatements and non-compliances made by the company in the Financial Statements, as explained in C and D above (except for the dropped charges).

- e) CA Naresh Kumar 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 (no. 38 of 1949) as amended from time to time, which states that an EP is guilty of professional misconduct when he, “Fails to invite attention to material departure from the generally accepted procedures of audit applicable to the circumstances”.

This charge is proved as the EP failed to conduct the audit in accordance with the SAs and applicable regulation as explained in C and D above (except for the dropped charges).

71. Thus, EP Naresh Kumar committed professional misconduct, as defined in the respective clauses of the Chartered Accountants Act, 1949, the meaning of which is conceived under Section 132 (4) of the Companies Act as amounting to professional misconduct

## **F. PENALTY and SANCTIONS**

72. The seriousness with which proved cases of professional misconduct are to be viewed is evident from the fact that a minimum punishment is laid down by the Act.
73. Independent Auditors of Publicly Listed Companies are expected to demonstrate sufficiency and appropriateness of audit work in every aspect of the audit of financial statements of PIE. Failure of the EP to meet the requirements envisaged under the Act and contemporary professional Standards on Auditing has been the hallmark of this audit engagement performed by the EP.
74. The dismal quality of audit in this engagement can be gauged from the failure of the EP to evaluate the company as a going concern, to prepare and document the audit working papers, and to critically assess the audit indicators related to the suspected fraud in the company etc.

Instead of being an exercise of application of professional skill and care expected of an auditor of a PIE, this audit had degenerated into a futile exercise of simply collecting and filing reams of photocopies of documents of routine nature in the audit work paper files. The best of systems fails if the professionals implementing the system do not perform their job which could ultimately result in a breakdown in trust and confidence of investors and the public at large to take informed decisions.

75. As detailed in this order, substantial deficiencies in audit, the abdication of responsibility and inappropriate conclusions on the part of EP, CA Naresh Kumar, establish his professional misconduct. In addition, CA Naresh Kumar has tried to mislead NFRA by giving evasive replies and falsified documents. Despite being a qualified professional, CA Naresh Kumar has not adhered to the Standards and has thus not discharged the duty cast upon him as a statutory auditor.
76. We have also explained above that CA Naresh Kumar lacks the level of knowledge, competence, skill, and the application that is normally expected from such a professional. Under the circumstances, we proceed to impose sanctions on the EP, CA Naresh Kumar, keeping in mind their deterrence, proportionality, and the signalling value.
77. Section 132(4)(c) of the Companies Act 2013 provides that National Financial Reporting Authority shall, where professional or other misconduct is proved, have the power to make order for—
- (A) imposing penalty of— (I) not less than one lakh rupees, but which may extend to five times of the fees received, in case of individuals; and (II) not less than ten lakh rupees, but which may extend to ten times of the fees received, in case of firms;
- (B) debarring the member or the firm from—(I) 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; or (II) performing any valuation as provided under section 247, for a minimum period of six months or such higher period not exceeding ten years as may be determined by the National Financial Reporting Authority.
78. As per information furnished by M/s Oswal Sunil & Company vide e-mail dated 31.08.2022, the statutory audit fees of SRS Ltd for 2017-18 was [REDACTED] besides M/s Oswal Sunil & Company received [REDACTED] as fees for limited review from SRS Ltd.
79. Considering the fact that professional misconduct has been proved and considering the nature of violations and principles of proportionality, we, in the exercise of powers under Section 132(4) of the Companies Act, 2013, order:
- a) Imposition of a monetary penalty of ₹ 300,000/- (Three Lakhs) upon CA Naresh Kumar.
- b) In addition, CA Naresh Kumar is debarred for 3 (Three) years from being appointed as an auditor or internal auditor or from undertaking any audit in respect of financial statements or internal audit of the functions and activities of any company or body corporate.

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

Sd/-

(Dr. Ajay Bhushan Prasad Pandey)

Chairperson

Sd/-

(Dr. Praveen Kumar Tiwari)

Full-Time Member

Sd/-


(Ms Smita Jhingran)

Full-Time Member

Authorised for issue by the National Financial Reporting Authority,

Date: 21.04.2023

Place: New Delhi

  
(Vidhu Sood)

Secretary

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

To

CA Naresh Kumar  
ICAI Membership No-085238  
Oswal Sunil & Company  
71, Darya Ganj,  
New Delhi - 110002  
E-mail: oswalsunil.co@gmail.com, mail@oswalsunil.com

Copy To: -

- i. Secretary, Ministry of Corporate Affairs, Government of India, New Delhi.
- ii. SFIO, New Delhi
- iii. Securities and Exchange Board of India, Mumbai.
- iv. Registrar of Companies, Mumbai.
- v. Secretary, Institute of Chartered Accountants of India, New Delhi.
- vi. IT-Team, NFRA for uploading the order on the website of NFRA.

Exhibit 1  
(An example of audit work programme)

(1A)

9/10/15

OSC

- ① Corporate ~~sta~~ <sup>trading</sup> March (April to Dec - July + Dec / April - July)
- ② Project ~~sta~~ No new business in FY 17-18
- ③ 7 days ~~OK~~ - SRS Flamingo - Sec n FID (Rupali Handi - FID) (Goshpa)
- ④ Jewellery Jew ~~OK~~ (Cloud in Dec 17) (Dec 17)
- ⑤ W- Grocery - No trans in FY 17-18
- ⑥ Secretaries -
- ⑦ Loans (Bank) - Corporate + Jew + Value Based (Vehicle loan)
- ⑧ Inventory valuation
- ⑨ Provisioning
- ⑩ Salary
- ⑪ Public deposit - Net bank - 12/10/15 - Recd with Bank of India

SUP

- ① MAM - ~~sta~~ OK
- ② Value Based - OK
- ③ Cinema - OK
- ④ Statutory liabilities
- ⑤ Public deposit - Not freeze

Joint / Segment wise

- FA - Segment wise
- Inventory Valuation - ~~sta~~
- Letter / Address Confirmation - ~~sta~~
- Provisioning for exp - ~~sta~~

Joint-

- AMT
- J. Tax
- Notes to a/c
- Audit Report
- Public Report

**Exhibit 2  
(An example of audit observation document)**

SRS Ltd (Statutory Audit)  
Audit Observations for FY 2017-18

**1 Business of Jewellery Division – description of item:**

vide letter dated 04.01.18, the Co. with reference to Reg 30 of COOP Act estimated NCE and DCE as under:  
 This is in reference to the Company's discontinuation of operations of its Jewellery Division with immediate effect due to equity crunch in the Company. In board meeting held on 16.12.17, a resolution was passed to discontinue the operations of Jewellery Division of the Company and to complete all the transactions of Jewellery Division by 15th January, 2018. However as per revised resolution (signed) the date is extended till 31st March 2018. Further as per notes to financial statements for the FY 2017-18, Jewellery Division has been discontinued after 31.12.17.

Jewellery Division had VAT registration in following states – Haryana, Delhi, U.P., Madhya Pradesh and Gujarat. If Jewellery Division has been discontinued, then what is the status of VAT liability decided by CGST and UTI Assessment in these states. — *Notes*

Out-of-date of sale purchase transactions in Jewellery Division is required by way of a detailed note, disclosure to be made since the Jewellery Division was discontinued. It estimates loss on account of inventory in hand assets and other current assets of Jewellery Division.

The foreign branch in Dubai, UAE has no transaction pertaining to sales & purchase during the FY 2017-18. Equity Creditors have been paid in full & last payment was on 05.06.17. The payments to creditors were made out of realization from debtors. There is an order dated 16.06.17 of the Hon'ble High Court of Madhya Pradesh dated 16.06.17. The order is in the nature of a stay order. There was no communication with the court. The amount of AEC 20,14,27 has been written off in books on 31.03.18. Expenses against such interest are not to be paid. There were no cash & bank balances during the FY 2017-18. There were no other bank balances, fixed deposits or other financial assets are available reporting balance of bank M/s. Bank of Canada. There were no expenses booked for the FY 2017-18 against insurance, rent or income tax. *Notes by myself*

Foreign Exchange are outstanding for UAL Branch Rs. 112,32,64,459/- out of which Rs. 13,04,46,280/- were remitted against bank safety. Bank Head 2 (R) or CIA San Director.

**2 Jewellery Division CGST/GST liability (if any) pending:**

vide letter dated 11.11.17, the Co. with reference to Reg. 30 of COOP Act estimated NCE and DCE as under:  
 We would like to clarify that the Company being a Company has decided to begin operations under the applicable provisions of the Income Tax Act (Company Code 2013) more particularly Section 11 with financial Company Law (Trust or other institution of Corporate body) (Provisional) (Company Code) against consent of the members of the Company. Full note to be added.

It is to inform that the Board of Directors of the Company after meeting held on 18th October, 2017 has decided to file an application under Section 11 of the Companies Act 2013 to convert the Company into a Trust or other institution of Corporate body (Provisional) (Company Code) against consent of the members of the Company which is being over for payment and CGST and GST liability to be paid against the cash balance on the ground of the other debts repayable.

Following are the parties (not including self) affected by amount Rs. 8,18,210/- namely:  
 1. Shri. G. S. Choudhary Private Limited 2. Shri. G. S. Choudhary Private Limited 3. Shri. G. S. Choudhary Private Limited 4. Shri. G. S. Choudhary Private Limited 5. Shri. G. S. Choudhary Private Limited 6. Shri. G. S. Choudhary Private Limited 7. Shri. G. S. Choudhary Private Limited 8. Shri. G. S. Choudhary Private Limited 9. Shri. G. S. Choudhary Private Limited 10. Shri. G. S. Choudhary Private Limited 11. Shri. G. S. Choudhary Private Limited 12. Shri. G. S. Choudhary Private Limited 13. Shri. G. S. Choudhary Private Limited 14. Shri. G. S. Choudhary Private Limited 15. Shri. G. S. Choudhary Private Limited 16. Shri. G. S. Choudhary Private Limited 17. Shri. G. S. Choudhary Private Limited 18. Shri. G. S. Choudhary Private Limited 19. Shri. G. S. Choudhary Private Limited 20. Shri. G. S. Choudhary Private Limited

Subsequent to the filing of the application, the company has been converted into a Trust or other institution of Corporate body (Provisional) (Company Code) against consent of the members of the Company. Full note to be added.

**3 DEBTORS OUTSIDE INDIA (L/A, USA) – Information required as to collection process advised by A/C (R) & San Director (R) in the light of provisions of sec 108 of Companies Act referred below:**

Attention is drawn to 9B Master Circular on Export of Goods and Services Master Circular No. 14/2012-13 dated July 25, 2012 as per which export proceeds are to be realized within 9 months from the date of receipt of invoice and Company should file a return within the period of realization period of 9 months up to a period of 9 months after the date of receipt of invoice. In cases where all export proceeds are not realized within the stipulated period, the export proceeds shall be liable to be repatriated to India within the stipulated period. The return should be filed within the stipulated period of 9 months from the date of receipt of invoice. The return should be filed within the stipulated period of 9 months from the date of receipt of invoice.

*Handwritten notes:*  
 Note  
 Cut-off date  
 31/12/17  
 on date of note  
 31/12/17  
 Note from hand/total  
 Security deposit  
 Cash hand total  
 Confirmation

*Handwritten notes:*  
 Amount 818  
 with SRS Ltd

*Handwritten note:*  
 Provision for doubtful debts

*Handwritten note:*  
 Break note by  
 myself

**Exhibit 3  
(Work Progress Report)**

**OSWAL SUNIL & COMPANY**  
CHARTERED ACCOUNTANTS  
71, DARYAGANI, NEW DELHI-110002  
**WORK PROGRESS REPORT**

ANNEXURE-R-28  
**(146)**

AUDIT FILE No.: 1  
NAME OF THE CLIENT: SRS Ltd  
PERIOD: 01.04.2017 to 31.03.2018  
NATURE OF AUDIT: Statutory Audit  
TEAM MANAGER: C.A. Manish Goyal  
DATE OF COMMENCEMENT: 21.09.2018

SHEET No.: 1

DATE	PROCEDURE PERFORMED	PERFORMED BY	INITIALS
21/09/18	Trial Balance (WT) Delhi Ledger checking and Balance checking	Mohit Medi	✓
21/09/18	Trial Balance - Ledger checking Debit Balance Check	Mohit Medi	✓
21/09/18	Trial Balance - Trial checking	Mohit Medi	✓
21/09/18	Corporate Trial Balance and Ledger checking	Mohit Medi	✓

**Exhibit 4  
(Work Progress Report)**

**OSWAL SUNIL & COMPANY**  
CHARTERED ACCOUNTANTS  
71, DARYAGANI, NEW DELHI-110002  
**WORK PROGRESS REPORT**

**(147)**

AUDIT FILE No.: 1  
NAME OF THE CLIENT: SRS Group Ltd  
PERIOD: 01.04.2017 to 31.03.2018  
NATURE OF AUDIT: Statutory Audit  
TEAM MANAGER: C.A. Manish Goyal  
DATE OF COMMENCEMENT: 21.09.18

SHEET No.: 2

DATE	PROCEDURE PERFORMED	PERFORMED BY	INITIALS
09-10	Bank Reconciliation and updation of observed errors	Mohit Medi	✓
10-10	checking of necessary Ledger and updating	Mohit Medi	✓
13-10	the transfer		

**Exhibit 5**  
**(Work distribution statement)**

ANNEXURE - R-15

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**SRS LIMITED**  
**Work Distribution - FY 2017-18**

**Annexure**

S.No.	Particular	OSC	SVP	Joint Responsibility
1	Corporate	Yes	No	No
2	MGM	No	Yes	No
3	Project	Yes	No	No
4	Value Bazar	No	Yes	No
5	?Days	Yes	No	No
6	Cinema	No	Yes	No
7	Jewellery	Yes	No	No
8	WT. Grocery	Yes	No	No
9	Fixed Asset	No	No	Segment wise
10	Physical verification & FAR Verification	No	No	Segment wise
11	Secretarial	Yes	No	No
12	Loans Bank in all respect	Yes	No	No
13	DTA	No	No	Joint
14	Inventory Valuation	Yes	No	Segment wise
15	Debtors/Creditors confirmation	No	No	Segment wise
16	Statutory Liabilities	No	Yes	All Segment
17	Provisioning for Exp.	No	No	Segment wise
18	Income Tax	No	No	Joint
19	Salary	Yes	No	No
20	Notes to Accounts	No	No	Joint
21	Audit Report	No	No	Joint