

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

7th Floor, Hindustan Times House,
Kasturba Gandhi Marg, New Delhi

No. NF-23/30/2021/2

28.04.2023

In the matter of CA Hemant Khator, ICAI membership No.117596, 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 06.10.2022, issued to CA Hemant Khator, partner of M/s GSV & Co. (Firm Registration No. 123334W), Surat, who is a member of the Institute of Chartered Accountants of India (ICAI hereafter) and was the Engagement Partner (EP hereafter) for the statutory audit of Women Next Loungeries Ltd (WNLL hereafter) for Financial Year 2016-17.
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. Findings on Articles of Charges of Professional Misconduct by Auditor
 - F. Penalty & Sanctions

A. Executive Summary

3. The National Financial Reporting Authority (NFRA) is India's independent regulator in respect of matters relating to accounting and auditing of prescribed classes of entities which can be broadly described as 'Public Interest Entities' or PIEs.
4. NFRA initiated action under Section 132(4) of the Companies Act, 2013 (the Act hereafter) for investigating into professional misconduct by the Engagement Partner, CA Hemant Khator, partner of M/s GSV & Co, consequent on information received from the Office of Registrar of Companies, Mumbai, regarding investigation carried out by office of Regional Director, Mumbai into the affairs of WNLL, listed on SME segment of Bombay Stock Exchange (BSE) with 59.94 % of shares held by public.
5. WNLL was engaged in manufacturing and trading lingerie, intimate wear and select exclusive wear. It had an inventory of ₹ 20.60 crore and outstanding trade receivable of ₹ 14.93 crore & trade payables of ₹ 13.78 crore as per financial statements of FY 2016-17.

Order in the matter of Women Next Loungeries Ltd for FY 2016-17

6. NFRA's investigation into the alleged failures of the EP, carried out under section 132(4) of the Act, revealed a number of significant failures on the part of the EP, Hemant Khator during the audit for FY 2016-17. The Audit failures include the EP's failure to **plan the audit and understand the entity and its environment, failure to determine the materiality and performance materiality, failure to obtain the audit evidence regarding the existence and condition of inventory, failure to identify the related party and related party transactions, failure to obtain external confirmations for the Trade Receivables & Trade Payables, failure to report the non-compliance with laws & regulations, and failure to identify and communicate with TCWG etc.** Such failures were in violation of the law and the Standards of Auditing, and led to professional misconduct as conceived in section 132(4) of the Act.
7. Accordingly, this Order imposes the following Sanctions in respect of the EP, CA Hemant Khator:
 - a) Imposition of a monetary penalty of ₹ Two Lakhs
 - b) CA Hemant Khator is also debarred for two 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

8. NFRA is a statutory authority set up under section 132(4) of the Act to monitor and enforce compliance with the auditing and accounting standards and to oversee the quality of service of the professions associated with ensuring compliance with these standards. NFRA is empowered under section 132(4) of the Act to investigate the prescribed classes of companies, exercise specified powers of a civil court and impose penalty for professional or other misconduct of the individual members or firms of chartered accountants.
9. The Statutory Auditors, both individual and firms of chartered accountants, are appointed by the members of companies under section 139 of the Act. The Statutory Auditors, including the Engagement Partners 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 Standards on Quality Control (SQC) and Code of Ethics, the violation of which constitutes professional misconduct, and is punishable with penalty specified under section 132(4) of the Act.

NFRA received from the Office of Registrar of Companies (ROC), Mumbai, a letter dated 25.11.2020 forwarding findings of an investigation carried out by the office of Regional Director, Mumbai into the affairs of WNLL under section 210(1)(a) & 210(1) (c) of the Act. The investigation revealed that the company's books of accounts had been falsified and revenues inflated; that the Auditor had not performed their duties as an "*independent watchdog*", had not verified the assets and inventories and had not qualified their report.

10. As per its Annual Report for FY 2016-17, WNLL is engaged in the business of manufacturing and trading of lingerie, intimate wear and select exclusive wear. WNLL was listed on the SME segment of BSE during FY 2016-17. Table 1 depicts certain key features of WNLL, its shareholding pattern showing substantial public interest, Revenue, Inventory, Trade Receivables & Trade Payables and PBT for the FY 2016-17.

Table 1

(₹ in crore)

Particulars	31.03.2017
Shareholding Pattern	
Public	59.94 %
Promoters	40.06 %
Revenue from Operations	51.77
Profit Before Tax	1.44
Inventory	20.60
Trade Receivables	14.93
Trade Payables	13.78

M/s GSV & Co. (Audit Firm) was the Statutory Auditor of WNLL for the FY 2016-17 and CA Hemant Khator was the EP for this statutory audit.

The matter was taken up by NFRA for investigation under section 132(4) of the Act to assess whether any professional misconduct was committed by the EP, CA Hemant Khator, partner of Ms/ GSV & Co., during the audit of WNLL for FY 2016-17.

11. Accordingly, the EP was requested on 18.02.2022 to submit the Audit File and SQC1 policy of the Firm, which he submitted vide email dated 18.03.2022. On perusal of Audit File, NFRA *prima facie* found a case of professional misconduct against the EP. Accordingly, a Show Cause Notice (SCN) dated 06.10.2022 was issued to CA Hemant Khator under 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 GSV & Co., the Statutory Auditor of WNLL for FY 2016-17. The EP was charged with professional misconduct of:

- a. failure to exercise due diligence and being grossly negligent in the conduct of professional duties.
- b. 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

- c. failure to invite attention to any material departure from the generally accepted procedures of audit applicable to the circumstances.
12. The EP was required to reply to SCN by 05.11.2022, but vide e-mail dated 05.11.2022, requested for extension of 30 days to submit his reply. NFRA granted extension to submit reply by 24.11.2022. The EP submitted his reply on 23.11.2022. An opportunity of personal hearing was also given to the EP, who appeared before the Executive Body, NFRA on 02.02.2023. During the personal hearing, the EP reiterated his written submissions.
13. We have considered the written and oral submissions of the EP in respect of each charge contained in the SCN. Our findings are discussed in Part C & D of this Order which relate to major lapses and other lapses in audit respectively. The charge related to auditors' appointment being invalid has been dropped, based on our consideration of the information and explanations provided by the auditor and other relevant information that has come to our notice subsequently.

C. Major Lapses in the Audit

C.1 Failure to obtain audit evidence regarding the existence and condition of inventory

14. The EP was charged with failure to obtain sufficient appropriate audit evidence regarding the existence and condition of the inventory by not being at attendance at the physical inventory counting, as required under para 4 of the SA 501¹. The inventory of WNLL was ₹ 20.60 crore as on 31.03.2017 and constituted a material item as it amounted to more than 54 % of the balance sheet size of ₹ 37.50 crore.
15. The EP in his reply to SCN reiterated that since his firm was appointed as the auditors after the year end, i.e., on 18.04.2017, they were not able to do the physical verification of stock on 31.03.2017; that the inventory holding level was in line with the past inventory holding trends and hence, he found nothing unusual in it; that during the audit process, they cross verified the stock records maintained & provided by the company in respect of selected items and reconciled them with the entries of receipt & issue in the books of accounts and also reported in para (ii) of the Annexure-“A” to the Independent Auditor's Report that physical verification of Stocks was conducted by the management at reasonable intervals; and that the same is also evidenced by para no. 1 of the Management Representation Letter dated 28.05.2017 related to Stock verification done by the Management. The EP had made similar statements by letter dated 14.11.2019 submitted to Assistant Director/Inspector, office of Regional Director, Western Region, Mumbai.

¹ SA 501, Audit Evidence- Specific Consideration for Selected Items

16. The replies of the EP are not accepted as no documentation was found in the audit file in relation to the audit procedures performed and audit evidence gathered in relation to the verification of the existence and condition of the inventory as at 31.03.2017. None of the claims made by the EP is supported by evidence in the Audit File and therefore is deemed as an afterthought. As has been discussed in section D.5, the Audit File does not contain any evidence of the sampling methodology used in audit. Paragraph 7 of SA 501 requires that if attendance at physical inventory counting is impracticable, the auditor shall perform alternative audit procedures to obtain sufficient appropriate audit evidence regarding the existence and condition of inventory. If it is not possible to do so, the auditor shall modify the opinion in the auditor's report in accordance with SA 705. The reply of the EP shows complete ignorance of this requirement, which assumes more serious proportions considering that the inventory consisted of more than 50% of the balance sheet of the Company. Therefore, we find that the EP has displayed gross negligence in his audit of the inventories. In view of this, it is clear that the EP did not comply with the requirements of SA 501 in so far as it relates to his obligations in respect of inventory. Hence, the charge relating to EP's failure to comply with SA 501 stands proven.
17. The importance of inventory verification cannot be overemphasized. We note that in a similar case the PCAOB², the US regulator, revoked the registration of the Audit Firm (AMC Auditing LLC) and barred the EP (Alexandria Yi, partner of AMC Auditing) from being associated with a registered public accounting firm for a period of one year. The PCAOB in its order ³ stated that *"The Firm did not perform sufficient appropriate procedures to test the existence of inventory, such as making or observing physical counts of the inventory and applying appropriate tests of intervening transactions but instead relied on the predecessor auditor's performance, at the time of the original 2016 audit, of a year-end physical inventory observation and inventory test counts at two locations. In 2016, inventory at those two locations represented approximately 42 percent of the issuer's inventory at year-end. In addition, the Firm failed to perform any procedures to test the existence of inventory held at other locations and in transit, which represented approximately 58 percent of the issuer's inventory at year-end"*.

C.2 Failure to identify the related party and related party transactions

18. The EP was charged with failure to identify the Related Parties and the transactions entered into with them. It was noted from the investigation of ROC that almost 100% of Net Sales was to M/s Shiv Apparel, a Related Party of WNLL, though not identified as such in the annual report for FY 2016-17 but identified as an associate concern under the Related Party

² Public Company Accounting Oversight Board

³ PCAOB release no. 105-2020-020 dated 03.12.2020

disclosure in FY 2013-14. The EP failed to identify the M/s Shiv Apparels as a Related Party and transactions entered into with them as Related Party transactions in the Independent Auditors' Report.

19. The EP in his reply to the SCN stated that he tried to ascertain from the management as well as from the previous financial statements about the associate concerns/Related Parties of the Company and observed that there was no associate concern or Related Party from which the Company was either buying or selling goods. Having no associate or Related Party can also be evidenced from Para 10 of the Management Representation Letter dated 28.05.2017. The EP further stated that they relied upon the previous audit reports and Management Representation Letter given by the management of the Company. Since no related party could be identified, there was no question of disclosing the Related Party transactions in the Balance Sheet as on 31.03.2017.
20. The EP's reply that they relied upon the previous audit reports for the identification of related parties, is not tenable as M/s Shiv Apparel was previously identified as a Related Party in financial statements of FY 2013-14. Since almost 100% sales were to M/s Shiv Apparel, the EP should have applied professional scepticism to probe further about the antecedents of M/s Shiv Apparel and whether the transactions with M/s Shiv Apparel were at an arm's length. However, the Audit File bears no evidence of this having been done. It is obvious the EP showed gross negligence and did not show professional scepticism as was expected from him as an auditor.
21. In this context we note that in the audit of Freedom Holding Corp⁴, USA, the PCAOB has stated that *the auditor must evaluate whether related party transactions have been properly accounted for and disclosed in the financial statements*. PCAOB further stated that during the audit of Freedom Holding Corp, Engagement Partners failed to evaluate financial statement disclosures in compliance with PCAOB auditing standards and imposed monetary penalty of \$35,000 each on two partners of the audit firm and penalty of \$25,000 on the engagement quality review partner.
22. The EP's submission in the present case makes it clear that the EP has not exercised any professional judgement and scepticism in relation to identification of the related parties even when 100% sales were being made to a single customer who had been already identified as a Related Party earlier in the financial year 2013-14. We, therefore, conclude that the charge relating to EP's failure to identify the Related Party and Related Party transactions stands proven.

⁴ PCAOB release no. 105-2022-38 dated 20.12.2022

C.3 Failure to obtain external confirmations for the Trade Receivables & Trade Payables

23. Both Trade Receivables of ₹ 14.93 crore and Trade Payables of ₹ 13.78 crore were 39.81% and 36.75% respectively of the balance sheet size which is significant and material. The EP was charged with gross negligence for not obtaining direct confirmations of balances from debtors and creditors, and with failure to perform any alternative procedure in the absence of confirmation from debtors and creditors in accordance with Para 12 read with A18 and A19 of SA 505⁵.
24. The EP in his reply to SCN submitted that *"The Company's management had denied the contact details of the parties due to the fear of losing the business information and they did not want to share such sensitive business information with anyone. Further, we observed that all the debtors and creditors were outstanding for less than 6 months. Due to above reasons and facts, we could not get the external confirmation from the parties."*
25. The importance of external confirmation can be best evidenced by referring to the Satyam case⁶ in which the Audit Firm Price Waterhouse's failure during audit to obtain external confirmation of bank balances was highlighted. It was stated in the PCAOB order passed in the case that *"auditing standards include specific requirements relating to an auditor's use of "confirmation," which is "the process of obtaining and evaluating a direct communication from a third party in response to a request for information about a particular item affecting financial statement assertions." Confirmation "is undertaken to obtain evidence from third parties about financial statement assertions made by management" consistent with the presumption that when evidential matter can be obtained from independent sources outside an entity, it provides greater assurance of reliability for the purposes of an independent audit than that secured solely within the entity. Confirmation may be used for a variety of items including accounts receivable, debt and encumbrances, and cash balances. PCAOB standards require that during "the performance of confirmation procedures, the auditor should maintain control over the confirmation requests and responses. Maintaining control means establishing direct communication between the intended recipient and the auditor to minimize the possibility that the results will be biased because of interception and alteration of the confirmation requests or responses. In this case, the PCAOB imposed a penalty of \$ 1.5 million on Price Waterhouse, Bangalore, as well as Lovelock & Lewes (member firms of Price Waterhouse International Limited) and the activities and operations of Price Waterhouse India were restricted for six months besides other actions.*

⁵ SA 505 External Confirmations

⁶ PCAOB Release No. 105-2011-002 dated 05.04.2011

26. We note that the EP has acknowledged that no external confirmations from debtors & creditors were carried out. The reply of the EP makes it clear that the management had imposed a limitation on the scope of the auditor. Limitations imposed by management may have other implications for the audit, such as for the auditor's assessment of fraud risks and consideration of engagement continuance as per Para A9 of SA 705⁷. However, no assessment of fraud risk having been done by the EP is evident from the audit file, nor has he furnished evidence of the additional procedures being performed in the absence of external confirmation procedures. Denial of contact details of debtors & creditors to EP should have aroused the suspicion of the auditor for further procedures which evidently did not happen, and the EP failed to verify balances in violation of SA 505. Hence, we conclude that the charge regarding failure to obtain balance confirmation from creditors and debtors stands proven.

D. Other Lapses in the Audit

D.1 Failure to Plan the audit and failure to understand the entity and its environment

27. The EP was charged with failure to plan the audit of Financial Statements of WNLL as per para 3 & 8 of SA 300; failure to document (a) the overall audit strategy (b) the audit plan; and (c) any significant changes made during the audit engagement to the overall audit strategy or the audit plan, and the reasons for such changes required as per para 11 of SA 300. While planning the audit, the EP was also required as per para 11 of SA 315⁸ "*to understand the nature of the business of WNLL by gaining an understanding of relevant industry, applicable regulatory structure etc. at macro level and gaining understanding of nature of the entity, its operations, its ownership, its governance & capital structure and applicable financial reporting framework etc. at the entity level.*"
28. The EP in his reply did not refer to any document evidencing the audit planning as required by the SAs. Instead, he stated that: "*Immediately after getting the appointment letter, we had a meeting with the top management and key officers of the company to understand the nature and business model of the entity. We also visited its registered office and godown situated at 101-105, Indian complex, Bldg no. 28, 1st Floor, Dapode Village, Bhiwandi, Dist. Thane, Maharashtra. Further, we had gone through the copies of earlier audited financial statements signed by the previous auditors, and we found that there were no major observation/qualification/adverse remarks in their reports. We also observed that the Company had been enjoying the credit facilities of around ₹12 crores from Bank of Baroda, Reclamation Branch, Mumbai. We also tried to ascertain from the management*

⁷ SA 705 Modifications to the Opinion in the Independent Auditor's Report

⁸ SA 315 Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment.

as well as from the previous financial statements about the associate concern/related parties of the Company and observed that there was no associate concern or related party from which the Company was either buying or selling the goods. We also observed that the major balance sheet items were stocks and debtors. The management had informed us that the Company has the internal system of physical stock verification at regular intervals. Further, we observed that all the debtors were outstanding for less than 6 months.”

29. The replies of the EP are irrelevant to the charges, since as per para 11 of SA 300 the Audit Plan has to be documented which has not been done. In addition to para 11, detailed procedures regarding documentation are given in paras A17 to A19 of SA 300 which are referred to in Para 11 of SA 300 and are required to be followed, which was not done. The reply also makes it clear that the EP has a serious lack of knowledge regarding the basic requirements of an audit. In view of the above, we conclude that the charge regarding the failure on the part of the auditor to plan the audit and failure to understand the entity and its environment, stands proven.
30. In the audit of Capstone's⁹ by Seale and Beers, LLC, PCAOB, the US Regulator, stated that the auditor had failed to properly plan the audit, including failing to assess the risks of material misstatement and to identify any significant risk at the financial statement and assertion level. Respondents also failed to obtain, or ensure that the engagement team obtained, sufficient appropriate audit evidence for significant items reported in the financial statements, including related party transactions and expenses. Further, the EP failed to exercise due professional care and professional scepticism in conducting and supervising the FY 2013 Audit, and caused the Firm to violate applicable quality control standards with respect to the FY 2013 Audit, as well as other issuer audits. In the order passed in this case the PCAOB revoked the registration of Seale and Beers CPAs, LLC and imposed monetary penalty of \$20,000.

D.2 Failure to identify the TCWG and failure to communicate with TCWG

31. The EP was charged with failure to identify the TCWG as per Para 11 of SA 260 and also failure to communicate with the TCWG, as required under Para 14, 15, 16 & 17 of SA 260¹⁰.
32. The EP in his reply has stated that *“Our firm was appointed as the Auditor of the Company for a very short period; i.e., appointed w.e.f. 18.04.2017 and resigned w.e.f. 30.11.2017. The Company was neither intimating about its committee meetings including Audit Committee meetings nor inviting the auditors in such meetings. Hence, we have not*

⁹ PCAOB release no. 105-2017-038 dated 14.09.2017

¹⁰ SA 265 Communicating Deficiencies in Internal Control to Those Charged with Governance and Management Order in the matter of Women Next Loungeries Ltd for FY 2016-17

attended the audit committee meeting of the Company during the above referred period. We had verbally informed the Managing Director about such irregularities but within short time we also had resigned from the post of the Auditor of the Company.”

33. We note that the EP in his reply has not commented on the charges. Though the auditor has stated that he had verbally informed the managing director about the irregularities, it is not supported by any documentation in the Audit File.
34. It is important to note that as per para 19 of SA 260 *“Where matters required by this SA to be communicated are communicated orally, the auditor shall document them, and when and to whom they were communicated. Where matters have been communicated in writing, the auditor shall retain a copy of the communication as part of the audit documentation.”* It is therefore clear that even in case the communication is done orally, it is the duty of Auditor to document the same.
35. We note that in the Audit File there is no documentation of identification, determination and communication with TCWG. Communication with TCWG needed to be formalized in some manner for its evidentiary value and also to ensure compliance with SA 260. In view of this, we conclude that the EP’s failure to identify and communicate with TCWG is established.

D.3 Failure to report Non-Compliance with laws & regulations

36. The EP was charged with failure to document non-compliances with laws & regulations noticed by him during audit. In his statement dated 05.11.2019 made before Assistant Director/Inspector, office of Regional Director, Western Region, Mumbai, the EP has admitted that the company was not complying with the statutory compliances regularly.
37. The EP in his reply to SCN has stated that *“Yes, we have admitted the fact that the Company was not particular in complying with some of the statutory provisions. We have also mentioned and disclosed the same in the Tax Audit Report for the F.Y. 2016-17 at page no 1 of 3ca report about default in payment of Provident Fund, Sales tax, TDS, Service tax etc. In our opinion, such defaults were not so material as to qualify the report.”*
38. We find that the EP in his submission has nowhere commented on the documentation in relation to the consideration of laws and regulations in the audit of WNLL for FY 2016-17, as required under para 29 of SA 250¹¹, which says that the auditor shall document identified or suspected non-compliance with laws and regulations and the results of discussion with management and, where applicable, those charged with governance and other parties outside the entity. Though the EP has stated that defaults were not material to

¹¹ SA 250, Consideration of Laws and Regulations in an Audit of Financial Statements

qualify the report, we find that materiality has not been defined in the Audit File. Therefore, the charge regarding the failure to report the non-compliance with laws & regulations stands proven.

D.4 Failure to determine the materiality and performance materiality

39. The EP was charged with the failure to determine the materiality, as required under Para 10 of SA 320¹², for the financial statements as a whole; and performance materiality for purposes of assessing the risks of material misstatement and determining the nature, timing, and extent of further audit procedures as required under para 11 of SA 320.
40. The EP in his reply has nowhere commented on the observation on materiality. In absence of any proper reply or evidence submitted by the EP, we conclude that the charge relating to his failure to determine the materiality and performance materiality stands proven.

D.5 Failure to document the sampling methodology adopted for substantive testing

41. The EP was charged with failure to obtain sufficient appropriate audit evidence to support his opinion and audit report as required under para A1 of SA 500¹³. The Audit File has no documentation regarding extent of verification of the transactions carried out, and whether the entire population was verified, or any sampling methodology was applied for the verification of the transactions such as sales & purchases.
42. The EP in his reply has stated that *"As a standard audit procedure, we verify the purchase and sales transactions covering around 60-70% of total transactions and in case of this Company also we have adopted and applied the same methodology. Copies of some sales invoices are enclosed herewith as Annexure-5"*.
43. The EP in his submission has nowhere commented on the documentation in relation to the extent of the verification of sales & purchases transactions during the course of audit. As the invoices submitted in the reply to SCN were never a part of the Audit File that the auditor had submitted earlier, these cannot be accepted as evidence. In section C.1 of this Order, we have already discussed the deficiencies in conducting the audit of inventories and in maintaining the related documentation.
44. In the absence of any reference being made to audit documentation in the reply to the SCN, the charge relating to failure to document the audit sampling methodology adopted (extent of verification of sales & purchases transaction) during the course of audit stands proven.

¹² SA 320, Materiality in Planning and Performing Audit

¹³ SA 500, Audit Evidence

D.6 Failure to appoint the Engagement Quality Control Reviewer (EQCR)

45. The EP was charged with failure to determine the appointment of EQCR of WNLL for FY 2016-17. This was in violation of SA 220¹⁴, as WNLL is a listed company, and the auditor was required to determine that EQCR had been appointed in terms of Para 19(a) of SA 220.
46. In his reply to SCN, the EP has stated that a team of four persons was deputed for carrying out the audit of the Company and the same was led by a Chartered Accountant having experience of around 5 years. It is evident from the reply of the EP and the Audit File that no EQCR was appointed. In the absence of any documentation about the EQCR and no reference about the EQCR by the EP in his written and oral submissions, we conclude that the charge regarding failure to determine the appointment of EQCR stands proven.
47. We note that in the case of Donahue Associates LLC, an audit firm, the registration was revoked and monetary penalty of \$5,000 imposed by the US Regulator PCAOB¹⁵ for failure to obtain an engagement quality review in compliance with Auditing Standard No. 7, *Engagement Quality Review* ("AS 7"), with respect to three issuer audit clients.

E. Findings on the Articles of Charges of Professional Misconduct by Auditor

48. Given the actions and omissions of the EP discussed in the foregoing paragraphs, it is established that the EP, CA Hemant Khator, did not comply with the stipulations in the Chartered Accountants Act, 1949 (CAs Act) and showed gross negligence and lack of due diligence in performing the statutory audit of WNLL. In addition, the EP, CA Hemant Khator has not ensured audit quality and was grossly negligent in his professional duties by not adhering to the requirements laid down by the relevant SAs. This has led to the issuance of an audit report that is not backed by valid audit evidence and is lacking quality in the audit work. Specifically, the following failures on the part of EP, CA Hemant Khator as contained under the Articles of Charges in the SCN are established:
 - a. Failure to exercise due diligence and being grossly negligent in the conduct of professional duties, because of the lapses and omissions as explained and proved in parts C & D above (as per Section 22 and Clause 7 of the Second Schedule to the CAs Act),
 - b. Failure to obtain sufficient information which is necessary for the expression of an opinion, or its exceptions are sufficiently material to negate the expression of an opinion, because of the lapses and omissions as explained and proved in part C above (as per Section 22 and Clause 8 of the Second Schedule to the CAs Act), and

¹⁴ SA 220, Quality Control for an Audit of Financial Statements

¹⁵PCAOB Release No. 105-2016-020 dated 14.06.2016

- c. Failure to invite attention to material departure from the generally accepted procedures of audit applicable to the circumstances, because he certified in his report that the audit was done as per SAs mandated under section 143 of the Act and committed the lapses and omissions as explained and proved in part C & D above (as per Section 22 and Clause 9 of the Second Schedule to the CAs Act).

F. Penalty & Sanctions

49. Section 132(4) of the Companies Act, 2013 provides for penalties where professional misconduct is proved. The seriousness with which proved cases of professional misconduct are viewed, is evident from the fact that a minimum punishment is laid down by the law.
50. Independent Auditors of Public Listed Companies serve a critical public function of enabling the users of Audited Financial Statements to take informed decisions. Absent a robust system of auditing, investors, creditors, and other users of financial statements would not be able to get the true and fair picture of the state of affairs of the company. The best of systems fails if the professionals implementing the system do not perform their job. This could lead to a serious failure of the financial system which could ultimately result in a breakdown in trust and confidence of investors and the public at large. Thus, the auditor is duty bound to examine and ascertain the integrity of Financial Statements of such entities¹⁶ in larger public interest.
51. The EP in the present case was required to ensure compliance with SAs to achieve the necessary audit quality and lend credibility to financial statements to facilitate its users. As detailed in the foregoing paragraphs of this Order, substantial deficiencies in audit on the part of CA Hemant Khator establish his professional misconduct. Despite being a qualified professional, CA Hemant Khator has not adhered to the SAs and has thus not discharged the duty cast upon him. Under the circumstances, we proceed to impose sanctions keeping in mind the deterrence, proportionality, and the signalling value of sanctions.
52. Section 132(4) (c) of the Companies Act, 2013 provides that the National Financial Reporting Authority shall, where professional or other misconduct is proved, have the power to make order for –
 - A. Imposition of 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;

¹⁶ As defined in Rule 3 of NFRA Rules 2018

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.

53. As per the information provided by EP, vide email dated 21.04.2023, the statutory audit fees of WNLL for FY 2016-17 received by M/s GSV & Co was ₹ [REDACTED] (received in FY 2017-18).

54. Considering that professional misconducts have been proved and considering the nature of violations and principles of proportionality, we, in exercise of powers under Section 132(4)(c) of the Companies Act, 2013, order:

- a) Imposition of a monetary penalty of ₹ Two Lakhs upon CA Hemant Khator.
- b) In addition, CA Hemant Khator is debarred for two 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.

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

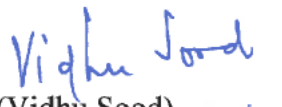
Signed
(Dr Ajay Bhushan Prasad Pandey)
Chairperson

Signed
(Dr. Praveen Kumar Tiwari)
Full-Time Member

Signed
(Smita Jhingran)
Full-Time Member

Authorised for issue by National Financial Reporting Authority

Date: 28.04.2023
Place: New Delhi


(Vidhu Sood)
Secretary
राष्ट्रीय वित्तीय रिपोर्टिंग प्राधिकरण
National Financial Reporting Authority
नई दिल्ली / New Delhi

To,

CA Hemant Khator
ICAI Membership No.117596
GSV & Co.,
Chartered Accountant,
ICAI Firm Registration No: 1233334W
The Financial Supermarket
Behind Rishabh Petrol Pump
Ring Road
Surat-395002

Copy To: -

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