

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

**7th – 8th Floor, Hindustan Times House,
Kasturba Gandhi Marg, New Delhi**

Order No: 27/2023

03.08.2023

In the matter of CA T. Raghavendra under Section 132(4) of the Companies Act, 2013

1. This Order disposes of the Show Cause Notice ('SCN' hereafter) No. NF-13033/34/2019 dated 23.09.2022 issued to CA T. Raghavendra (ICAI Membership No. 023806), proprietor of M/s T. Raghavendra & Associates (ICAI Firm Registration no. 003329S), Hyderabad, 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 M/s Bartronics India Limited ('Bartronics' or 'the company' hereafter) for the eighteen-month period from 01.10.2013 to 31.03.2015 (FY 2013-15, hereafter).
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 & Sanctions
- A. EXECUTIVE SUMMARY**
3. Pursuant to the information received from the Ministry of Corporate Affairs regarding irregularities observed by Financial Reporting Review Board (FRRB, hereafter) of ICAI in the Financial Statements of FY 2013-15 of Bartronics¹, whose equity shares are listed at Bombay Stock Exchange ('BSE' hereafter) and National Stock Exchange of India Ltd ('NSE' hereafter), NFRA initiated an investigation under Section 132(4) of the Companies Act 2013 (the Act, hereafter) into the role of the statutory auditors, CA T. Raghavendra, for the audit of financial statements for FY 2013-15.
4. Despite repeated communication, CA T. Raghavendra did not submit the Audit File and SQC¹ policy of the audit firm forcing NFRA to conclude that he either had no such documents with him or is unwilling to cooperate with NFRA in discharge of its statutory responsibility. This is a professional misconduct as NFRA has powers of Civil Court under Section 132(4)(b) of the Act in respect of discovery and production of books of account and

¹ Bartronics India Limited is a company registered at Registrar of Companies, Hyderabad, CIN is L29309TG1990PLC011721 and listed on BSE and NSE.

other documents and inspection of any books, registers and other documents of any person summoned under Section 132(4)(b).

5. NFRA's investigations have revealed that EP had committed professional misconduct by misusing the Emphasis of Matter for covering up misstatements in the financial statements and including under the "Emphasis of Matter" the matters that warranted consideration for modifying his audit opinion. These matters included non-provision of interest on loans, doubtful capital advances etc. In addition, NFRA's investigations have brought out various other lapses in the Statutory Audit such as not reporting the failure of the Company to report under the Companies Act, 1956, and wrong recognition of deferred tax assets etc.
6. Based on its investigation and proceedings under Section 132 (4) of the Act and after giving multiple opportunities to the EP to present his case, NFRA has found that the EP is guilty of professional misconduct and imposes, through this Order, the following monetary penalties and sanctions that will take effect after 30 days from the date of issuance of this Order:
 - i. Imposition of a monetary penalty of **₹ 5,00,000 (Rupees Five Lakhs)** on EP, CA T. Raghavendra;
 - ii. Debarment of EP, CA T. Raghavendra for **ten 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

7. NFRA is a statutory authority set up under Section 132 of the Act to monitor implementation and enforce compliance of the auditing and accounting standards and to oversee the quality of service of the professions associated with ensuring compliance with such standards. NFRA has powers of a civil court and is empowered under Section 132(4) of the Act to investigate the prescribed classes of companies and impose penalty for professional or other misconduct of the individual members or firms of chartered accountants.
8. The statutory auditors, both individual and firm of chartered accountants, are appointed by the members of company under Section 139 of the Act. The statutory auditors, including the Engagement Partners and Engagement Team, that conduct the audit are bound by the duties and responsibilities prescribed in the Act, the rules made thereunder, Standards on Auditing (SA, hereafter), including the Standards on Quality Control 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.
9. On a reference received vide letter dated 05.11.2019 from the Ministry of Corporate Affairs indicating gross financial irregularities observed by FRRB of ICAI in the Financial Statements of Bartronics for FY 2013-15, NFRA initiated investigation into the role of statutory auditor in the audit of the financial statements for FY 2013-15 under Section 132(4) of the Act.
10. During FY 2013-15, Bartronics was a company engaged in manufacturing of Smart cards and RFID (Radio Frequency Identification) equipments and in a Financial Inclusion Project. Its equity shares were listed on the BSE and NSE. The Foreign Currency Convertible Bonds

of the Company were listed on the Singapore Stock Exchange. The company was required to prepare its financial statements in accordance with the applicable provisions of the Companies Act, 1956 and Accounting Standards (AS, hereafter) notified under the Companies (Accounting Standards) Rules, 2006.

11. M/s T. Raghavendra & Associates were the Statutory Auditors for Bartronics for the FY 2013-15 and CA T. Raghavendra, proprietor of the Audit Firm, was the Engagement Partner on behalf of the Audit Firm. To investigate the matter, the EP was requested on 08.12.2021, to submit the Audit File² and the Quality Control Policies of the Audit Firm as per SQC1³ within 30 days.
12. The EP requested, vide letter dated 07.01.2022, for four-week extension of time to supply the information stating that he was busy with filing Income Tax Returns. The EP was permitted to submit the Audit File by 04.02.2022, conveying that no further extension would be given. When the EP did not submit the Audit File and the Quality Control policies of the firm by the extended date, a reminder was sent to EP on 25.02.2022 conveying that in case of no reply within 15 days, action may be initiated against him as per provisions of Section 450 of the Companies Act, 2013 read with Rule 13 of National Financial Reporting Authority Rules, 2018 (NFRA Rules 2018, hereafter). Even though sufficient time and opportunity was given to the EP, the EP did not submit the said documents and sent no further communication after the letter dated 07.01.2022 seeking extension.
13. In view of these developments and on finding a *prima facie* case of professional misconduct on the part of the EP, a SCN under Section 132(4)(c) of the Act and Rule 11 of the NFRA Rules, 2018 was issued to the EP on 23.09.2022, asking him to respond by 23.10.2022. An opportunity for hearing in person was also given to the EP. The EP was charged with professional misconduct on the following grounds:
 - a. failure to disclose material facts known to him, which is not disclosed in a financial statement, but disclosure of which is necessary in making such a financial statement, where he is concerned with that financial statement in a professional capacity,
 - b. failure to report a material misstatement known to him to appear in a financial statement with which EP is concerned in a professional capacity,
 - c. failure to exercise due diligence and being grossly negligent in the conduct of professional duties,
 - d. failure to obtain sufficient information which is necessary for expression of an opinion, or its exceptions are sufficiently material to negate the expression of an opinion; and
 - e. failure to invite attention to any material departure from the generally accepted procedure of audit applicable to the circumstances.

² As defined in para 6(b) of SA 230 Audit Documentation.

³ Standard on Quality Control (SQC) 1, Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements

14. As no reply was received from EP within the said timeline, the EP was given one more opportunity vide email and letter dated 02.11.2022 to submit his response to the SCN by 15.11.2022. It was also conveyed that no further extension of time for submission of response would be given and in case of failure of submission of response by 15.11.2022, it will be construed that EP had nothing to say in the matter and NFRA would proceed to decide the matter based on the material on record. As no response was received from the EP, another final opportunity vide letter dated 28.11.2022 was given to submit his response to the SCN by 05.12.2022, stating that if no response was received, NFRA would proceed based on materials available on record.
15. Despite sufficient time and opportunity given to the EP for submission of his response on SCN, the EP did not respond to the SCN. Therefore, this Order is being issued based on all material on record. The major lapses on the part of the EP are discussed in Part 'C' of this Order. Other lapses in the Audit are discussed in Part 'D' of this Order.

C MAJOR LAPSES IN THE AUDIT

C.1 Failure to maintain Audit File and to co-operate with NFRA

16. As stated in Section B of this Order, the EP was required to provide Audit File for the engagement and the SQC policy of the audit firm, which he failed to do despite several extensions of time.
17. Audit documentation is the record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor has reached. SA 230 mandates the auditor to prepare audit documentation on a timely basis⁴, assemble the audit documentation in an Audit File⁵ and complete the process of assembling the final Audit File within 60 days⁶ after the signing of Auditor's Report. SA 230 mandates that the auditor shall prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand the nature, timing and extent of audit procedures, the results thereon, significant matters, professional judgments and conclusions as per Annual Report for FY 2013-15. Though the Independent Auditor's Report was signed on 20.05.2015, the EP did not submit the Audit File to NFRA despite repeated requests.
18. Non-submission of Audit File leads us to conclude that either no such documents are available with the EP or the EP is unwilling to cooperate with NFRA in discharging its statutory authority and responsibility under Section 132 (4) of the Act. This is a serious matter as NFRA has powers of Civil Court under Section 132(4)(b) of the Act in respect of discovery and production of books of account and other documents and inspection of any books, registers and other documents of any person summoned under Section 132(4)(b). By not cooperating with NFRA, the EP has prevented NFRA from carrying out its legal mandate

⁴ Para 7 of SA 230, Audit Documentation states that "*the auditor shall prepare audit documentation on a timely basis.*"

⁵ Para 14 of SA 230 states that "*the auditor shall assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis after the date of the auditor's report*".

⁶ Para A21 of SA 230 states that "*SQC 1 requires firms to establish policies and procedures for the timely completion of the assembly of audit files. An appropriate time limit within which to complete the assembly of the final audit file is ordinarily not more than 60 days after the date of the auditor's report*".

to protect public interest and the interests of investors, creditors and others associated with the companies or bodies corporate governed under Rule 3 of NFRA Rules, 2018. These require NFRA to exercise oversight of auditing functions performed by auditors and investigate cases of professional misconduct under Section 132 of the Act, 2013. For the purpose of monitoring and enforcing compliance with Standards on Auditing ('SA', hereafter) under the Companies Act, 2013 and under Rule 3 of NFRA Rules, 2018, NFRA is mandated to review working papers and communications related to the audit and to require the personal presence of the auditor for seeking additional information or explanation in connection with the conduct of an audit.

19. Failure to co-operate with NFRA and non-submission of the required information and documents such as audit work paper files constitute professional misconduct by a Chartered Accountant. In the case of *R.C. Dutta vs. Kailash C. Mishra*⁷, a Chartered Accountant was held guilty of professional misconduct under clause 7 of Part I of Second Schedule and other misconduct under Section 22 of the Chartered Accountants Act 1949 (the CAs Act, hereafter) for his failure to appear before Tax Authorities. CA Gora Chand Mukherjee⁸ was also held guilty of Professional Misconduct falling within the meaning of Clause 7 of Part I of the Second Schedule to the Chartered Accountants Act 1949 for delay in submission of information to RBI and for not submitting appropriate information.
20. At the international level also, such conduct is viewed seriously. The Public Company Accounting Oversight Board (PCAOB), the Audit Regulator of USA, have sanctioned firms/individual Certified Public Accountants (CPAs) for non-cooperation with the regulator, including revocation of license. Some such instances are listed below:
 - a. In the matter of Crowe Horwath (HK) CPA Limited,⁹ PCAOB censured the audit firm and revoked its registration for non-cooperation with its investigation, by failing to comply with Demand requiring production of documents, including audit work papers.
 - b. In the matter of Li and Company, P.C.,¹⁰ PCAOB censured and revoked its registration for non-cooperation with a Board investigation and produce certain documents and information.
 - c. In the matter of J. Crane CPA, P.C. and James Crane¹¹, PCAOB permanently revoked the registration of the Firm and permanently barred James Crane from being an associated person of a registered public accounting firm for their non-cooperation with a Board inspection, and for Crane, P.C.'s failures to file an annual report and pay an annual fee.
21. Absence of audit documentation or failure to submit the Audit File to NFRA, is a clear evidence that the auditor failed to obtain reasonable assurance about whether the financial statements as a whole were free from material misstatement and that the auditor's opinion

⁷ *R.C. Dutta vs. Kailash C. Mishra* - Page 143 Vol.LX-1-21(6) of Disciplinary cases-, Council's decision dated 5th January, 2005 and Judgement of High Court dated 1st March, 2007

⁸ Gora Chand Mukherjee in Re:- [PPR/P/10/E/2007/DD/6/E/ 8INF/08/DC/94/2010] Judgement delivered on 15th December, 2016

⁹ PCAOB Release No. 105-2017-031 dated 25.07.2017.

¹⁰ PCAOB Release No. 105-2016-022 dated 14.06.2016.

¹¹ PCAOB Release No. 105-2011-001 dated 19.01.2011.

issued through the Independent Audit Report dated 20.05.2015 was without any basis and unreliable and hence, invalid. Accordingly, we take a serious view of the failure of the EP to respond to NFRA's repeated communications and conclude that the EP by not responding to the proceedings undertaken by NFRA, has violated Section 132 (4) of the Act, 2013, which is a 'professional or other misconduct' in terms of Section 132 (4) (c) of the Act, 2013, read with Clause (2) of Part III of Schedule I of the Chartered Accountants Act, 1949.

C.2 Misuse of Emphasis of Matters for issuing a modified audit opinion

22. The EP issued an unmodified audit opinion certifying that the financial statements presented a true and fair picture of the affairs of the company. Under the "Emphasis of Matter" part in the audit report the EP reported the following:
- a) *"Reference is invited to Note 10 of the financial statements, the company has not provided interest on unsecured loans as terms are not clearly available with the Company and consequently uncertainty arises in Financial Statements as to the exact amount.*
 - b) *Reference is invited to Note 15(i)(a) of the financial statements, the Company's capital advances to the extent of Rs.9,062.09 Lakhs. We are unable to ascertain whether such balances are fully recoverable. Accordingly, we are unable to ascertain the impact, if any, that may arise in case any of these advances are subsequently determined to be doubtful of recovery. Had the Company provided for the same, the loss for the period would have been higher by the said amount.*
 - c) *Note 17 forming part of the financial statements regarding the Trade Receivables to the extent of Rs.81,264.11 Lakhs are more than three years old and in respect of which the company provided only Rs. 7,030.67 lakhs. We are unable to form an opinion on the extent to which the debts may be recoverable.*
 - d) *Note 32 forming part of the financial statements regarding the non-repayment of FCCB amounting to Rs.31,302.20 Lakhs which has fallen due as of February 2013 and the company has defaulted the payments even after the expiry of extended time sought by it from the RBI.*
 - e) *Without qualifying our opinion, we invite attention to Note no 43 forming part of the financial statements regarding the uncertainties relating to MCD Project – "Apke Dwar Project", the matter is in arbitration."*
23. By definition¹², the Emphasis of Matter (EoM, hereafter) para refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements. EoM para refers only to information presented or disclosed in the financial statements¹³. We observe that Point (a) under EoM para regarding provision of

¹² Para 5 of SA 706, Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report, reads as under:

"Emphasis of Matter paragraph – A paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements."

¹³ Para 6 of SA 706 states that "6. If the auditor considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements, the auditor shall include an Emphasis of Matter paragraph in the

interest on unsecured loans is not properly disclosed in the financial statements. Note 10¹⁴ to the financial statements does not provide the amount of unsecured loans and interest due on the same. Since the matter is not adequately disclosed in the financial statements, the matter cannot be included in the EoM para in the Auditor's report.

24. In point (b) in EoM para regarding Capital Advances, the EP has referred to the firm's inability to ascertain whether the balances were recoverable and if not, the impact of the same. Similarly, in point (c) in EoM para regarding trade receivables, EP has stated that they were unable to form an opinion on the extent to which the debts may be recoverable. As per para 6 of SA 706, the auditor may include an EoM paragraph in the auditor's report provided the auditor has obtained sufficient appropriate audit evidence that the matter is not materially misstated in the financial statements. In this case, it is clear that the EP is not sure about the recoverability of the old debts and the extent of misstatements on account of the same. These matters, hence, should not be included in the EoM para in the Auditor's Report.
25. Point (d) regarding the non-repayment of FCCB and point (e) regarding uncertainties relating to MCD Project are matters concerning the Going Concern status of the company and should have been evaluated separately whether they needed to be considered for qualification.
26. Further it is seen that Trade receivables which are more than three years old account for more than 50% of the Balance Sheet size and FCCB which have not been paid are more than 20% of the Balance Sheet size. These are material balances warranting sufficient appropriate audit procedures before forming audit opinion. The EP has abdicated his responsibility by simply including them in the EoM section of his report.
27. In view of the above, it is clear that the EP misused the Emphasis of Matter part of the Audit Report to include matters that should have been evaluated separately and considered for effecting modification to the audit opinion under para 6 of SA 705¹⁵. Para 6 of SA 705

auditor's report provided the auditor has obtained sufficient appropriate audit evidence that the matter is not materially misstated in the financial statements. Such a paragraph shall refer only to information presented or disclosed in the financial statements."

¹⁴ Note 10 of the Annual Report of the Company for FY 2013-15 reads as follows:

Note 10: Other Current Liabilities

Current maturities of long-term debt (Refer note No. 5)	45,571.54	45,924.72
Interest accrued but not due on borrowings	-	3.87
Interest accrued and due on borrowings	10,194.84	4,999.74
Inter corporate Deposits	4,660.70	4,686.00
Other Liabilities	784.62	730.36
Unclaimed dividends	12.83	12.95
Statutory remittances	41.23	154.74
Payables for Capital works	161.42	271.87
Advances from customers	205.96	185.86
	61,633.14	55,000.10

Note: The company has not provided for interest on Unsecured Loans

¹⁵ Para 6 of SA 705, Modifications to the Opinion in the Independent Auditor's Report, reads as under:

"6. The auditor shall modify the opinion in the auditor's report when:

(a) The auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or

(b) The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement."

clearly states that auditor should modify the opinion when he concludes that the financial statements are not free from material misstatements or if he is not able to obtain sufficient appropriate audit evidence for the same. Resorting to EoM para in the matters detailed above is a clear violation of provisions of SA 706.

D. OTHER LAPSES IN THE AUDIT

D.1 Erroneous Application of Financial Reporting Framework by the Company

28. In the Independent Auditor's Report dated 20.05.2015, the EP has reported that standalone financial statements comply with the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014. The Company has erroneously applied the provisions of Companies Act, 2013 while the Companies Act, 1956 was applicable for the reporting period (Note 2 a. and 2.c.A on page 53 of Annual report) as per MCA Circular No. 1/19/2013-CI-V dated 04.04.2014.

This is gross negligence on the part of EP as the Financial Statements for FY 2013-15 were not prepared as per the correct reporting framework and the EP failed to report this non-compliance.

29. The Company was required under Section 211 of the Companies Act, 1956 to prepare Financial Statements in the form provided in part 1 of the Revised Schedule VI to the Companies Act, 1956. On examination of the Financial Statements, the following non-compliances with the format were observed:
- a) In Note 13: Non-current Investments, the company has not disclosed investment in Bartronics Asia Pte Ltd and Bartronics Middle East FZE as "Investments in Subsidiaries", as required under Revised Schedule VI to the Companies Act, 1956.
 - b) Goodwill on consolidation is given as a line item in the Balance Sheet with NIL amount. This line item should be disclosed only in Consolidated Financial Statements and should not be reflected in Standalone Financial Statements.

The EP failed to report these non-compliances in the Auditor's Report.

D.2 Failure to report the company's non-compliance with the provision of AS 5¹⁶ and the Framework (issued 2000)¹⁷

30. The company arrived at a One Time Settlement (OTS) of dues with some of its lenders, following which the lenders agreed to waive the principal amount of ₹ 9.74 crores, interest amount of ₹ 4.11 crores and leased rental charges of ₹ 7.21 crores. Note 4 to the Financial Statements of the company stated that the waiver of the principal amount had been credited to Capital Reserve account and the amount of interest and leased rental charges to Other

¹⁶ AS 5, Net Profit or Loss for the Period

¹⁷ Framework for the Preparation and Presentation of Financial Statements (issued July 2000)

Income account. However, this accounting treatment is erroneous in the light of para 32 of AS 25¹⁸ and para 91 of the Framework¹⁹.

31. The waiver of the principal amount of ₹ 9.74 crores should have been recognised as Income in the Statement of Profit and Loss. Also, in view of the unusual nature of the event i.e. waiver of the loan liability by creditor, a separate disclosure should have been made by the company in accordance with para 12 of AS 5²⁰. This was not done by the company and the EP has not pointed out the error in his audit report.
32. In Note 30 to the Financial Statements, the company has only disclosed the adjustment relating to waiver of balances and its accounting treatment. However, it has not disclosed the terms of concessions, revised loans balances, repayment period, and rate of interest of One Time Settlement with the lenders. As per para 25 of the Framework, qualitative characteristics of Financial Statements are the attributes that make the information provided in financial statements useful to users. Two of the qualitative characteristics are 'understandability' and 'relevance' given in para 26 and 27 of the Framework. In view of these requirements, the company should have disclosed the important terms of One Time-Settlement with lenders, which it did not do. The EP has not pointed out the error in his audit report. This indicates lack of professionalism on his part and his failure to report the company's non-compliance with AS 5 is proved.

D.3 Deferred Tax Assets: failure to report non-compliance with AS 22²¹

33. The company has recognised deferred tax assets of ₹ 23.55 crores. As per para 17 of AS 22²², *deferred* tax assets should be recognised only to the extent that there is virtual certainty supported by convincing evidence for sufficient future taxable income. Para 18 of AS 22

¹⁸ Para 32 of AS 25 states that "Income is recognised in the statement of profit and loss when an increase in future economic benefits related to an increase in an asset or a decrease of a liability has arisen that can be measured reliably."

¹⁹ Para 91 of the Framework is reiterated below:

Recognition of Income

Income is recognised in the statement of profit and loss when an increase in future economic benefits related to an increase in an asset or a decrease of a liability has arisen that can be measured reliably. This means, in effect, that recognition of income occurs simultaneously with the recognition of increases in assets or decreases in liabilities (for example, the net increase in assets arising on a sale of goods or services or the decrease in liabilities arising from the waiver of a debt payable) (Emphasis supplied)"

²⁰ Para 12 of AS 5 states that "when items of income and expense within profit or loss from ordinary activities are of such size, nature or incidence that their disclosure is relevant to explain the performance of the enterprise for the period, the nature and amount of such items should be disclosed separately."

²¹ AS 22, Accounting for Taxes of Income

²² Relevant excerpts from AS 22 are as under:

"17. Where an enterprise has unabsorbed depreciation or carry forward of losses under tax laws, deferred tax assets should be recognised only to the extent that there is virtual certainty supported by convincing evidence that sufficient future taxable income will be available against which such deferred tax assets can be realised.

Explanation:

1. . . . Virtual certainty refers to the extent of certainty, which, for all practical purposes, can be considered certain. Virtual certainty cannot be based merely on forecasts of performance such as business plans. Virtual certainty is not a matter of perception and is to be supported by convincing evidence. Evidence is a matter of fact. . .

18. The existence of unabsorbed depreciation or carry forward of losses under tax laws is strong evidence that future taxable income may not be available."

provides that existence of carry forward of losses under tax laws is strong evidence that future taxable income may not be available. The company had been in loss for the current reporting period FY 2013-15 and the previous reporting period FY 2012-13. Moreover, it is not clear from the financial statements whether the conditions for the recognition of deferred tax assets were met. EP should have exercised professional scepticism and challenged the management's judgement of recognising the deferred tax assets in the absence of virtual certainty of profits and concrete evidence of sufficient taxable income to realise the same. The EP has therefore failed to report non-compliance with the provisions of AS 22 regarding deferred tax assets as there is no comment in the Auditor's report.

D.4 Failure to report or address errors in Cash Flow Statement

34. The company has used Indirect Method to arrive at cash flows from operating activities in the Cash Flow Statements, whereby net profit or loss is to be adjusted for the effects of transactions of non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.
35. In this case, Net Profit before Tax is derived after considering the non-cash income relating to waiver of interest and leased rental charges by the lenders. However, these items being non-cash items should have been adjusted to arrive at 'Cash flow from Operating Activities'. Since the same has not been done, the Cash Flow from Operating Activities has been inflated.
36. Further, waiver of principal amount of ₹ 9.74 crores is shown as Increase/(Decrease) in other reserves in the Cash Flow Statement. Since waiver of principal amount is a non-cash transaction, it should have been excluded from Cash Flow Statement as per para 40 of AS 3²³. As this has not been reported by EP, the failure to report and address the errors in cash flow statement stands established.

D.5 Significant Accounting Policies not as per applicable accounting standards

37. Note 24: *Employee Benefit Expense* of financial statements states that the provision for gratuity fund and leave encashment is made on ad hoc basis and not as per the actuarial valuation as required by AS 15²⁴. In contrast, in note 2(i) in Significant Accounting Policies, it is stated that the estimated liability for the employee benefits is determined in accordance with the requirements of AS 15 and liability for gratuity is determined and charged to Profit and Loss account based on valuation by independent actuary. The EP did not report these contradictory disclosures and non-adherence of provisions of AS 15, which shows lack of due diligence on his part.

E. ARTICLES OF CHARGES OF PROFESSIONAL MISCONDUCT

38. Given the above-mentioned actions and omissions, it is established that CA T. Raghavendra committed professional misconduct by not submitting the Audit File and related documentation to NFRA, by not responding to the SCN issued by NFRA under Section 132

²³ AS 3 , Cash Flow Statements

²⁴ AS 15 , Employee Benefits

(4) of the Act and by being grossly negligent and unprofessional in conducting his audit of the Bartronics by not adhering to the requirements laid down by the relevant SAs. We conclude that the following failures on the part of CA T. Raghavendra as contained under the Articles of Charges in the SCN stand 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 and D above. (As per Section 22 and Clause 7 of Part I of the Second Schedule to the CAs Act),
- b) Failure to obtain sufficient appropriate 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 and D above. (As per Section 22 and Clause 8 of Part I of the Second Schedule to the CAs Act), and
- 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 is done as per SAs mandated under Section 143 of the Act and committed the lapses and omissions as explained and proved in part C and D above. (As per Section 22 and Clause 9 of part I of the Second Schedule to the CAs Act).

In addition, CA T. Raghavendra committed professional misconduct by not cooperating with NFRA, in terms of Clause (2) of Part III of Schedule I of the Chartered Accountants Act, 1949.

F. PENALTY & SANCTIONS

39. During FY 2013-15, equity shares of Bartronics were listed on the BSE Limited and NSE and its Foreign Currency Convertible Bonds were listed on the Singapore Stock Exchange. As per BSE website, as on 31.03.2015, the company had substantial public holding with 87.46% of shares held with public. The role of the auditors in such cases involving substantial interest becomes more important.
40. In view of the fact that the EP has not only shown blatant disregard to the Standards on Auditing in conducting audit of a company that affects public interest, but has also shown scant regard to the legal process undertaken by NFRA under Section 132 (4) of the Companies Act, 2013 we take a serious view of his professional misconduct, which assumes further importance in light of the fact that he had long association with the company being its statutory auditor for five financial years from FY 2012-13 to FY 2017-18. As per information available in Annual Report for FY 2013-15, EP was paid ₹ 12,20,000 (which included audit fees of ₹ 8,00,000 and limited reviews of ₹ 4,00,000 and ₹20,000 for other services).
41. Considering that the professional misconducts by the EP have been proved and considering the nature of the violations and principles of proportionality, we, in exercise of powers under Section 132(4)(c) of the Companies Act, 2013, order:

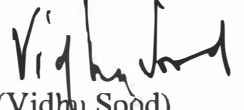
- i. Imposition of a monetary penalty of ₹ 5,00,000 (Rupees Five Lakhs) on the EP, CA T. Raghavendra, proprietor of M/s T. Raghavendra & Associates.
 - ii. Debarment of CA T. Raghavendra, proprietor of M/s T. Raghavendra & Associates, for **ten years** from being appointed as an auditor or internal auditor or from undertaking any audit in respect of financial statements or internal audit of the functions and activities of any company or body corporate.
42. This Order will become effective after 30 days from the date of its issue.

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


(Vidhu Sood)
Secretary

Date: 03.08.2023
Place: New Delhi

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

To,
CA T. Raghavendra,
ICAI Membership No: 023806,
M/s T. Raghavendra & Associates
Firm Registration No: 003329S
D No. 4-1-938, 6/501, Flat # 22
5th Floor, Krishna Apartments
Tilak Road, ABIDS, Hyderabad – 500001
Email: rag4talupur@yahoo.com

Copy to:-

- i. Secretary, Ministry of Corporate Affairs, Government of India
- ii. Securities and Exchange Board of India
- iii. Institute of Chartered Accountants of India
- iv. Hyderabad Chapter of ICAI
- v. RP for M/s Bartronics India Limited
- vi. IT-Team, NFRA for uploading the order on the website of NFRA.