

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

\*\*\*\*\*

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

Order No. 56/2023

Date: 29.09.2023

**ORDER**

**In the matter of CA Rashmikant D. Kundalia, ICAI Membership No. 036775 under Section 132(4) of the Companies Act, 2013 read with Rule 11(6) of National Financial Reporting Authority Rules, 2018.**

This Order disposes of the Show Cause Notice dated 07.12.2022, issued to CA Rashmikant D. Kundalia, partner of M/s R.D. Kundalia & Associates, (ICAI Firm Registration No: 130789W), Mumbai, who is a Member of the Institute of Chartered Accountants of India (ICAI Membership No. 036775) and was the Engagement Partner (EP) for the statutory audit of six branches of Dewan Housing Finance Corporation Limited (DHFL), a company listed on both National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE) for the Financial Year 2017-18. This Order is divided into the following sections:

- A. Executive Summary
- B. Introduction and Background for the Order
- C. Major Lapses
- D. Articles of Charges of Professional Misconduct
- E. Penalty and Sanctions

**A. EXECUTIVE SUMMARY**

1. This Order is being passed as a result of an investigation by the National Financial Reporting Authority (NFRA) into the professional conduct of CA Rashmikant D. Kundalia for his role as the Engagement Partner (EP) in the audit of six branches of DHFL. DHFL, a housing finance company listed on both NSE and BSE and operating through a network of branches, was reportedly involved in financial fraud. NFRA took suo motu notice of the matter and pursuant of an Audit Quality Review (AQR) of the statutory audit of DHFL for FY 2017-18, conducted by Chaturvedi & Shah (CAS), a Mumbai-based Chartered Accountant Firm. During the review, NFRA also noticed that 33 Engagement Partners (EP)

or branch auditors had signed the “Independent Branch Auditors’ Report” for nearly 250 branches. The Company's Statutory Auditor, viz CAS, had referred to these so-called Branch Audits. NFRA investigated these EPs responsible for the branch audits under section 132 (4) of the Companies Act, 2013 (the Act), including CA Rashmikant D. Kundalia, who was the EP for the audit of six of the 250 branches of DHFL.

2. NFRA’s investigations revealed that the appointment of none of the 33 branch auditors was approved at the Annual General Meeting (AGM) of DHFL, as required by the Act. CA Rashmikant D. Kundalia accepted the appointment, portrayed himself as “Branch Statutory Auditor” in all communications with the Company and CAS, and issued an “Independent Branch Auditor’s Report”. By doing so CA Rashmikant D. Kundalia not only accepted a legally invalid appointment but also violated the provisions of the Chartered Accountants Act, 1949 (CAs Act), which required the EP to ensure a valid appointment as per the Act.
3. Notwithstanding the defective appointment, the Branch Audit performed by CA Rashmikant D. Kundalia was investigated by NFRA from the standpoint of compliance with the applicable Standards on Auditing (SAs). It was found that in the performance of the branch audit the EP, CA Rashmikant D. Kundalia, had not complied with the requirements laid down in the SAs and had not maintained proper audit documentation as per the standards that established the EP’s professional misconduct in terms of Section 132 (4) of the Act.
4. Based on the nature of professional misconduct and other factors, this Order imposes on CA Rashmikant D. Kundalia a monetary penalty of ₹1,00,000/- (One Lakh) and debarment for one year 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 AND BACKGROUND**

5. NFRA is a statutory authority set up under Section 132 of the Act to monitor the 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 has the powers of a civil court and is empowered under Section 132 (4) of the Act to investigate the prescribed classes of companies and impose penalties for professional or other misconduct of the individual members or firms of chartered accountants.
6. 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 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), 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.

7. Following media reports on the alleged siphoning of public money of around ₹31000 crore and the Enforcement Directorate's reported action in April 2020 on an alleged banking fraud of about ₹3700 crore by the promoter/ directors of DHFL, NFRA suo-motu initiated an Audit Quality Review (AQR) to probe into the role of the Statutory Auditors of DHFL for the FY 2017-18, the year in which the alleged fraud was primarily stated to have occurred. While examining the Audit Files<sup>1</sup> of the statutory audit carried out by CAS, a Mumbai-based CA firm, certain prima facie violations were observed relating to the appointment of Branch Auditors and the conduct of branch audits of DHFL, which were referred to by the statutory auditor CAS. Accordingly, NFRA suo motu called for the audit files from EP who had signed the "Independent Branch Auditors' Report" for nearly 250 branches, under Section 132(4) of the Act, including CA Rashmikant D. Kundalia, to whom this Order relates and who acted as the branch auditor for the six branches of DHFL at Pen, Dombivli, Titwala, Ghodbunder, Vashi and Ulwe.
8. DHFL, a housing finance company listed on both NSE and BSE, was required to prepare its Financial Statements for the Financial Year (FY) 2017-18 in accordance with Schedule III and other applicable provisions of the Act and Accounting Standards (AS) notified under the Companies (Accounting Standards) Rules, 2006.
9. As part of NFRA's investigations, the audit firm was asked to provide the Audit File vide NFRA letter dated 10.08.2022, giving 15 days' time. The Audit File along with other information in respect of the six branches for which CA Rashmikant D. Kundalia was the EP for FY 2017-18 was received on 25.08.2022 and 02.09.2022.
10. The investigation by NFRA revealed prima facie evidence that the branch auditors had violated both the Companies Act, 2013 and the Chartered Accountants Act, 1949 by accepting the appointment that lacked a valid approval and had also violated the SAs while carrying out the branch audit. On being satisfied that prima facie sufficient cause existed to take action under sub-section (4) of Section 132 of the Act, a Show Cause Notice (SCN hereafter) was issued to CA Rashmikant D. Kundalia on 07.12.2022, asking the EP to show cause why action should not be taken for professional misconduct in respect of the performance as the Statutory Auditor of six branches of DHFL for the FY 2017-18. The EP was charged with professional misconduct on account of:
  - a. Failure to exercise due diligence and ascertain from the Company whether the requirements of Sections 139 of the Act in respect of such appointment have been duly complied with,
  - b. Failure to exercise due diligence and being grossly negligent in the conduct of professional duties,
  - c. 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, and
  - d. Failure to invite attention to material departure from the generally accepted procedures of audit applicable to the circumstances.

---

<sup>1</sup> As defined in para 6 of SA 230

11. The EP was asked to submit his reply to SCN by 05.01.2023 but was granted an extension of time following a request vide e-mail dated 05.01.2023. The EP submitted the reply on 12.01.2023. In the reply to SCN, the EP opted for the opportunity given for a personal hearing before the Executive Body (EB) of NFRA. Accordingly, vide letter dated 02.03.2023 sent via email, the EP was granted an opportunity to be heard. Upon no response from the EP by the prescribed time, NFRA tried to contact the EP over the telephone. However, the calls were also not responded to. A reminder email was sent again on 12.07.2023 to confirm his willingness to avail the opportunity to be heard. The EP responded to the email on 13.07.2023 and availed the opportunity of a personal hearing. The hearing was conducted on 18.08.2023 in which the EP largely reiterated his written replies. The EP also submitted additional written responses on 18.08.2023 (before the personal hearing) and again on 25.08.2018, largely repeating his earlier stand. We examined in detail all the submissions made by the EP.
12. The various charges levied in the SCN and the response of the EP to the charges are discussed in Part C of this Order. It is pertinent to note that in his additional written responses, the EP also raised the issue of the jurisdiction of NFRA vis-à-vis financial year 2017-18.
  - a. We observe that NFRA has requisite jurisdiction and authority under Section 132(4) of the Act, read with other applicable provisions of the Act, to monitor and enforce compliance with the SAs and to investigate matters of professional misconduct of Chartered Accountants falling under the NFRA domain. Section 143 (9) of the Companies Act, 2013 mandates an Auditor to comply with the Auditing Standards. The proviso to section 143(10) states that until the Auditing Standards are notified by the Central Government, the Auditing Standards specified by the ICAI would be deemed to be the Standards on Auditing. The notification of NFRA with effect from 01-10-2018, as the body responsible inter alia for investigating professional misconduct and other misconduct, does not alter the Auditor's liability to fully comply with the Standards and the law prior to the formation of NFRA.
  - b. Section 132(4) of the Companies Act gives exclusive jurisdiction to NFRA in matters of professional or other misconduct for Auditors of cases that fall within the jurisdiction of NFRA which is evident from the following:
    - i. The Proviso to Section 132(4)(a) of the Act states –“Provided that no other body or institute shall initiate or continue with proceedings in such matters of misconduct where the National Financial Reporting Authority has initiated an investigation under this section”.
    - ii. Also, Rule 10(3) of the NFRA Rules, 2018 states - “ On the commencement of these rules- (a) the action in respect of cases of professional or other misconduct against auditors of companies referred to in Rule 3 shall be initiated by Authority and no other institute or body shall initiate any such proceedings against such auditors”.

Thus, NFRA has exclusive jurisdiction in matters of professional or other misconduct.

  - c. Compliance with Standards of Auditing was mandatory, and its non-compliance was punishable even prior to the establishment of NFRA, hence no new obligation or offence has been created on the Auditors. In view of this backdrop and specific wordings of Section 132 and Rule 10 quoted above, it is clear that NFRA has sole and

exclusive jurisdiction to initiate proceedings in earlier years too or else it would lead to an anomalous situation of a regulatory gap where any misconduct committed prior to the formation of NFRA will go unpunished. The law enabling investigation into professional and other misconduct, being in existence in the period prior to 2018, cannot be said to be retrospective and NFRA jurisdiction is established for implementing the process of investigation into misconduct committed in the past as well. Thus, the challenge to the jurisdiction of NFRA with respect to misconduct committed prior to 2018 does not stand.

### C. MAJOR LAPSES BY THE EP

13. The major lapses for which the EP was issued the SCN primarily relate to (i) accepting the audit engagement without a valid authority and thus violating the provisions of the Act and (ii) violations of the Standard of Auditing in conducting the audit.

#### I. Acceptance of audit engagement without valid authorization and without complying with ethical requirements; and issuing an audit report in violation of the Act

14. The EP was charged with acceptance of an audit engagement without complying with ethical requirements and issuing the audit report without a valid appointment as per the Act, as the appointment of the Audit Firm as “Statutory Auditor for the branches” of DHFL for FY 2017-18 was not done by the competent authority i.e., the shareholders.
15. On examination of the Audit File, we observe that despite a specific requirement<sup>2</sup> in the Chartered Accountants Act, 1949 (CAs Act) to do so, the EP has not verified if the appointment as “Statutory Auditor for the branches” of the Company was done in compliance with Section 139 of the Act. The EP not only accepted an invalid appointment letter issued by an “Authorised Signatory” without the approval of the Board and shareholders but also issued the audit report without ascertaining the actual objective and scope of the audit. The EP also violated the ethical requirements, as laid down in the Code of Ethics, 2009, which require the EP to ensure professional competence, due care, integrity and professional behaviour in discharging the duties as well as compliance with the Act before accepting the engagement. In the process, the EP also did not comply with Paras 14, 15 and 16 of SA 200 “Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing”.
16. In response, the EP submitted that “*DHFL had passed a separate and specific resolution for the appointment of branch auditor, (RDKA) [M/s R.D. Kundalia & Associates] by the Company for FY16... DHFL has used a standard/routine draft/practice of communicating the appointment to RDKA as Branch Auditor for FY18...*”. The EP stated that there were “two cardinal facts”, one that it was their “recurring appointment” for the “same branches” and second that there was “uniformity of Branch Auditor’s Remuneration from year to

---

<sup>2</sup> Under Section 22 of the Chartered Accountants Act, 1949 read with Clause (9) of Part I of the First Schedule to the said Act (the meaning of which is conceived in Section 132(4) as professional misconduct).

year...”. The EP further submitted that “*impugned audit year is our Eighth year of such audit*” and “*cardinal facts coupled with impugned appointment letter with detailed scope of work attached therewith demonstrate ‘substantial compliance’ with the appointment process*” and the “*circumstances during FY18 as compared to FY16 have been same and identical. There have not been any changes in the circumstances as illustrated and quoted in the Implementation Guide on Audit Engagements*”. He further submitted that “*Sans prejudice to the foregoing elucidation... a Practicing CA can delegate his work to another practising CA*”.

17. In the additional written submissions (both before and after the personal hearing), the EP has contended that “*the appointment of CAS has been technically deficient*” since the audit firm was the branch auditor for FY 2016-17 for the same six branches and it was neither removed as branch auditor in the AGM nor resigned as the Branch Auditor. The EP has also claimed shelter of sub-rule (7) of Rule 3 of Companies (Audit and Auditors) Rules, 2014 which states “*the auditor appointed in the annual general meeting shall hold office from the conclusion of that meeting till the conclusion of the sixth annual general meeting*”. As an “*alternate submission*” “without prejudice” to his other contentions and remedies, the EP has mentioned that in case NFRA is still of the view that his appointment was not valid, then he may be taken to have acted as “*agent of the CAS*” in terms of SA 600<sup>3</sup>.
18. We observe that none of the submissions of the EP are supported by evidence. The replies of the EP, offering divergent views to be chosen at the option of NFRA, show the absence of professional behaviour. It also confirms the charges that the EP has accepted the audit without examining its legal validity, so as to understand the nature and scope of the engagement.
19. We find that as mentioned in para 17 above, the appointment letter acknowledged by the EP and the “Independent Branch Auditors’ Report” issued by him clearly described the engagement as a Branch Statutory Audit. However, the EP did not comply with the requirements of the CAs Act and SA 200 in this regard, as explained in subsequent paragraphs. The first proviso to Section 139(1) of the Act required<sup>4</sup> that “*the company shall place the matter relating to such appointment for ratification by members at every annual general meeting*”. Thus, had it been a recurring audit as claimed by the EP, then he was required to ensure that his appointment was ratified by the members in the AGM. The EP failed to notice that in FY 2015-16, the AGM specifically resolved to appoint separate Branch Statutory auditors and the Company’s Auditors while in 2017-18 there was only one statutory auditor, i.e., CAS, for the Company and all its branches. It is thus evident that the EP, without even being aware of the change in mandate, continued his purported role as statutory auditor and issued the reports accordingly. On receipt of the SCN, the EP tried to cover up the lapses by taking the plea that the audit was not a statutory audit or if it was a statutory audit he was duly appointed.

---

<sup>3</sup> SA 600 – Using the Work of Another Auditor.

<sup>4</sup> As it stood at the time of audit

20. Misconduct, arising out of gross negligence, implies failure to act honestly and reasonably either according to the ordinary and natural standard or according to the standard of a particular profession<sup>5</sup>. His failure to act honestly and reasonably is established by his alternate submission that he was an agent of CAS and not a “Statutory Branch Auditor” and further evidences the lack of professionalism in the discharge of his duties.
21. The below documents evidence that the EP accepted the subject matter audit assignment, acted and called himself as “Statutory Auditor for the Branches” of DHFL until an SCN was issued to him by NFRA:

S.NO.	Name/Nature of Document	Document Date	Details of document
1	Appointment Letter	23.08.2017	Appointed the audit firm as "Statutory Auditor for the branches" at a "Statutory Audit Fees" of ₹1,50,000/-
2	Acceptance Letter	12.09.2017	Signed by Audit Firm accepting appointment as "Branch Statutory Auditor"
3	Guidelines for Statutory Audit of Branches	Issued along with appointment letter dated 23.08.2017	Stated that " <i>Besides statutory compliance and requirements there are certain specific areas which have to be looked into and verified by the Statutory Auditors...</i> "
4	Confirmation letter(s) issued to CAS	07.04.2018	The EP confirmed to CAS that " <i>we are aware that (i) the financial information of the branches for the...year ended 31<sup>st</sup> March, 2018 for which we have been engaged to perform audit, will be included in the financial statements of the Company for the...year ended 31<sup>st</sup> March, 2018 and (ii) our report on our audit of the financial information of the branches will be referred to by you as a basis, in part, for you</i>

<sup>5</sup> Cited in ICAI Code of Ethics, Registrar of Companies, Bihar vs. M.N. Basu - Page 323 of Vol. IV of the Disciplinary Cases, ICAI vs B. L. Khanna (Delhi High Court).

			<i>report on your audit of the financial statements of the Company”.</i>
5	Independent Branch Auditor’s Report	07.04.2018 for six branches	The EP certified that “ <i>we have taken into account provisions of the Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of the Act and the Rules made thereunder. We conducted our audit in accordance with the Standards on auditing specified under Section 143(10) of the Act. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance</i> ” and also certified the “ <i>true and fair view of the Branch as at 31<sup>st</sup> March 2018</i> ”.
6	Branch’s Financial Information Summary Memorandum	07.04.2018	EP certified that “ <i>In our opinion, based on our audit, the financial information...as of 31<sup>st</sup> March, 2018 and for the year ended gives a true and fair view</i> ”.

22. Besides the above, the EP prepared a report titled “Independent Branch Auditors’ Report” on the “accounts of the branch” examined by him and sent it to the auditor of the company as is required by the proviso to Section 143(8) of the Act read with Rule 12 of Companies (Audit and Auditors) Rules, 2014. Further, these branch audit reports are clearly referred to by the Company’s Statutory Auditor (CAS) in its report to the members of the Company in line with requirement Section 143(3)(c), Section 143(8) read with Rule 12 mentioned above. These facts make it clear that he acted as the branch statutory auditor but did not ensure a valid appointment.
23. Under Section 22 of the Chartered Accountants Act, 1949 read with Clause (9) of Part I of the First Schedule to the said Act (the meaning of which is conceived in Section 132(4) as



professional misconduct) a chartered accountant in practice shall be deemed to be guilty of professional misconduct if an appointment as auditor of a company is accepted without first ascertaining from it whether the requirements of Section 225 of the Companies Act, 1956 (equivalent Sections being Section 139 & 140 of Companies Act, 2013)<sup>6</sup> in respect of such appointment have been duly complied with.

24. The ICAI Code of Ethics, 2009 makes it clear that "*Under Clause (9) of Part I of the First Schedule to the Chartered Accountants Act, 1949, the incoming auditor has to ascertain whether the Company has complied with the provisions of the above sections. The word "ascertain" means "to find out for certain". This would mean that the incoming auditor should find out for certain as to whether the Company has complied with the provisions of Sections 224, 224A and 225 of the Companies Act. In this respect, it would not be sufficient for the incoming auditor to accept a certificate from the management of the Company that the provisions of the above sections have been complied with. It is necessary for the incoming auditor to verify the relevant records of the Company and ascertain as to whether the Company has, in fact, complied with the provisions of the above sections*". As evidenced by the instances listed in the Table above, the EP's documentation and reports he issued show that he performed the work as a Branch Statutory Auditor. However, on receipt of the SCN from NFRA which, inter alia, charged him with several violations of the SAs, the EP took a divergent stand and contented that the audit was not a statutory branch audit.
25. As per Section 143 (8) of the Act, the appointment of the Statutory Auditor is required to be made under Section 139 of the Act by the members at an annual general meeting. It is observed that the Resolution for Appointment of Auditor for the financial year 2017-18 passed at the 33rd Annual General Meeting of DHFL, held on 21-07-2017, read with the declaration of Voting Results of the resolution to ratify such appointment only refers to the appointment of CAS (Firm Registration No: 101720W), as the Statutory Auditors of the Company to audit the accounts of all the Company's offices including those of its zonal/ regional and branch offices for the financial year 2017-18. No other Branch Statutory Auditors were appointed or ratified by the Company in the said meeting. Only CAS was appointed as the Statutory Auditor for the company as well as all its branches. Thus, the shareholders of the company approved only one Statutory Auditor (viz. Chaturvedi & Shah) for the Company and its branches. Therefore, in the absence of a valid appointment order, the audit firm's acceptance vide letter dated 31.08.2017 of the appointment as Statutory Auditor of the branches and issuance of the "Independent Branch Auditor's Report" by the EP for the six Branches of DHFL, describing the engagement as Branch Statutory Audit confirms the absence of professional skepticism and lack of due diligence on his part.
26. Thus, the EP was required to exercise due diligence under SA 200 and adhere to the specific provisions of the Chartered Accountants Act, 1949 under Section 22 read with

---

<sup>6</sup> As per Ministry of Corporate Affairs Circular No. 7/2014, dated 01-04-2014, the equivalent sections of the Companies Act 2013 for the above sections of the Companies Act, 1956 are sections 139 and 140.

Clause 9 of Part I of the First Schedule. The non-compliance is therefore professional misconduct in terms of section 132(4)(c) of the Companies Act 2013. Branch Statutory Audit is rendered invalid ab-initio due to non-ratification by the shareholders of the Company which was the requirement of the law. This is compounded by the fact that CAS, in their Statutory Audit Report, has referred to the branch audit reports<sup>7</sup>. The said lack of due diligence in accepting an invalid appointment is also professional misconduct as per Clause 7 of Part I of the Second Schedule to the CAs Act, the meaning of which is conceived in Section 132(4)(c) of the Act. Therefore, we find that the charges in paras 14 and 15 above stand proved.

## **II. Failure to comply with Standards on Auditing (SAs)**

27. Notwithstanding our finding in Part I above that the appointment of CA Rashmikant D. Kundalia was not as per the provisions of the Law, we now discuss the non-compliance by CA Rashmikant D. Kundalia with the SAs, since the audit work done by the EP has been referred to in the Audit Report of the Statutory Auditor, CAS. We observe from the various communications between the Company, the Branch Auditor and the Statutory Auditor that the whole Branch Audit engagement was performed by the Branch Auditors as per the scope of work provided by the company in consultation with the Statutory Auditors. The scope describes the engagement as a branch statutory audit under the Act. The Branch Auditors accepted the "Statutory Branch Audit" assigned by the Company and issued the "*Independent Branch Auditors' Report*" stating therein that "*we have taken into account provisions of the Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of the Act and the Rules made thereunder. We conducted our audit in accordance with the Standards on auditing specified under Section 143(10) of the Act. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance*". Since these branch audit reports are clearly referred to by Company's Statutory Auditor (CAS) in its report to the members of the Company, we examine here the extent of compliance with the applicable SAs by the Branch Auditor notwithstanding the violation of ethical standards, the Chartered Accountants Act, 1949 and of the Companies Act, 2013 in accepting an invalid appointment as the Branch Auditor. The principles and procedures laid down in the SAs including professional skepticism, audit documentation, sufficiency and appropriateness of audit evidence, audit planning, materiality, engagement risk, nature, timing and extent of evidence-gathering procedures and reporting are all applicable in the branch audit as well, being an audit of historical financial information. Accordingly, the various violations of the SAs with which the EP was charged in the SCN are discussed in the following paragraphs.

---

<sup>7</sup> Independent Auditor's Report of DHFL dated 30.04.2018 issued by CA Jignesh Mehta on behalf of CAS, available in the public domain (<https://www.bseindia.com/bseplus/AnnualReport/511072/5110720318.pdf> - Last accessed 29.09.2023)

## **Non-Compliance with SA 210 “Agreeing the Terms of Audit Engagements”**

28. The EP was charged with non-compliance with SA 210<sup>8</sup> and displaying an absence of professional skepticism and professional judgment in documenting the objective and scope of the audit, thereby violating SA 200<sup>9</sup> as well. SA 210<sup>10</sup> stipulates that the auditor shall agree to the terms of the audit engagement with management or Those Charged With Governance (TCWG) and that subject to paragraph 11 of the SA, the agreed terms of the audit engagement shall be recorded in an audit engagement letter or other suitable forms of a written agreement and shall include (a) the objective and scope of the audit of the financial statements; (b) the responsibilities of the auditor; (c) the responsibilities of management; (d) identification of the applicable financial reporting framework for the preparation of the financial statements; and (e) reference to the expected form and content of any reports to be issued by the auditor and a statement that there may be circumstances in which a report may differ from its expected form and content.
29. Responding to the charges, the EP stated that the appointment letter issued by the Company “clearly states following: - *The objective and Scope of the Audit - Responsibility of Auditors - Responsibility of Management - Accounting framework for preparation of FS - There were no circumstances which compelled us to adopt a different form of reporting than agreed form and consent*” and has referred to “*Implementation Guide on SA210*”. He stated that “*being a recurring audit of same branches, new audit engagement letter was not given in the absence of any specific requirement as per SA*”. He further referred to “*The Audit of Branches was being carried out as per Companies Act, 2013 and Income Tax Act, 1961*” and stated that as per para 11 of SA 210 “*the applicable laws themselves give a detailed list of audit engagement*”. In his additional submissions, the EP submitted that DHFL had requested them to issue specific reports only. Thus, he performed the audit as per the given scope.
30. The contentions of EP are not acceptable. The appointment letter makes it clear that “*Besides statutory compliance, there are certain specific areas which have to be looked into and verified by the Statutory Auditors...*” Thus, the subject matter assignment was not only limited to “Statutory Branch Audit”, but also included verification of certain specific areas. In such a scenario, it was even more important for the auditor to send an audit engagement letter to DHFL before the commencement of the audit to help avoid misunderstandings with respect to the audit giving reference to further agreements between the auditor and DHFL.
31. The copy of the appointment letter acknowledged by the Audit Firm and the covering letter to it (that conveys the acceptance of the engagement) did not contain all the details required by Para 9, 10 and 11 of SA 210. It was deficient in terms of a proper description of the objective of the audit, the responsibilities of the auditor and the management and the applicable financial reporting framework. Such an audit engagement letter (as prescribed

---

<sup>8</sup> SA 210, Agreeing the Terms of Audit Engagements.

<sup>9</sup> Para 15 and 16 of SA 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing.

<sup>10</sup> Para 9, 10 and 11 of SA 210

by SA 210)<sup>11</sup> was not found to have been issued by EP. The EP's response above shows a flawed understanding of the scope of SA 210.

32. Between 2015-16 and 16-17, there was a significant change in the circumstances relating to the branch audit. In 2015-16 the AGM decided to have a separate branch auditor and company's auditor, while in subsequent years there was only one auditor (CAS) to audit the Company and all its branches. This called for the application of para 13 of SA 210.
33. The EP's negligence of the provisions of SA 210 has resulted in accepting an invalid appointment and issuing a report that is not legally valid. Thus, apart from the non-compliance with SA 210, this shows the absence of professional skepticism and professional judgment in understanding the objective and scope of the audit, thereby violating SA 200 also. Therefore, the charges in para 28 above regarding non-compliance with SA 210 and SA 200 stand proved.

### **Non-Compliance with SA 230 "Audit Documentation"**

34. The EP was charged with non-compliance with SA 230<sup>12</sup>. EP's audit documentation does not give evidence of the nature, timing and extent of audit procedures performed, results of those audit procedures and conclusions reached during the audit as required by SA 230. In terms of SA 230, the objective of the auditor is to prepare documentation that provides a sufficient and appropriate record of the basis for the auditor's report; and evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements. In the absence of the required documentation, the audit report EP issued to CAS, the Statutory Auditor, was without adequate basis and was in violation of SAs.
35. The EP denied all the charges and submitted that "*there was sufficient audit evidence and documentation compiled by us during the audit....*".
36. The EP's contention that is not acceptable in view of the absence of any documentation in this regard. There is no evidence in the Audit File to indicate that the EP had performed audit procedures and documented the conclusion, nature, timing and extent of the procedures performed, as detailed below.
37. As explained by SA 230, the nature and purposes of audit documentation are to provide evidence of the auditor's basis for a conclusion about the achievement of the overall objectives of the auditor; and evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements. SA 230 lists "enabling the conduct of quality control reviews and inspections in accordance with SQC 1; and enabling the conduct of external inspections in accordance with applicable legal, regulatory or other requirements" among the additional purposes that are served by the audit documentation. Para 7 of SA 230 emphasises the "Timely Preparation of Audit Documentation" i.e. in a manner contemporaneous with the events that are being sought to be documented.

---

<sup>11</sup> The sample engagement letter provided in appendix I of SA 210 may be referred.

<sup>12</sup> SA 230 – Audit Documentation

38. Apart from SA 230, there are other SAs that also require the documentation of events, data, evidence, opinions and conclusions. SA 230 makes it very clear that reliance can be placed only on the audit file as evidence of what was done. Para A5 of SA 230 makes explicit that: “Oral explanations by the auditor, on their own, do not represent adequate support for the work auditor performed or conclusions the auditor reached, but may be used to explain or clarify information contained in the audit documentation”. Para 14 of SA 230 mandates 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.
39. SA 230 requires that the auditor shall prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand (a) The nature, timing, and extent of the audit procedures performed to comply with the SAs and applicable legal and regulatory requirements, (b) The results of the audit procedures performed, and the audit evidence obtained, and (c) Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.
40. SA 230 further requires that in documenting the nature, timing and extent of audit procedures performed, the auditor shall record (a) The identifying characteristics of the specific items or matters tested; (b) Who performed the audit work and the date such work was completed; and (c) Who reviewed the audit work performed and the date and extent of such review.
41. The Audit File does not even contain the basic documentation such as:
- a. Understanding the branch operations, internal controls and responsibilities at various levels in the branch (refer to SA 315<sup>13</sup>).
  - b. Audit plan made after understanding the branch operations in accordance with SA 300
  - c. Determination of materiality levels (refer to SA 320<sup>14</sup>). There is no documentation of materiality for the loans. Also, there is no documentation of the basis of materiality and how the materiality arrived at is used in the audit.
  - d. Understanding of the IT system controls (refer to SA 315)
  - e. Observations from previous audits, inspection reports, and internal audit reports (refer to SA 315)
  - f. Proof of verification of trial balance items, including assets (substantive audit procedures)
  - g. Procedures adopted to verify the loans sanctioned during the year (substantive audit procedures)
  - h. KYC verification, anti-money laundering verification, security verification (substantive audit procedures).
42. In the absence of such proof documented in the audit file, the inevitable conclusion is that the requirements of the SAs are not met. The EP did not follow the requirements of SA 230

---

<sup>13</sup> SA 315, Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment.

<sup>14</sup> SA 320, Materiality in Planning and Performing an Audit

and the audit documentation does not give evidence of the nature, timing and extent of audit procedures performed, results of those audit procedures and conclusions reached during the audit. Hence the charges in para 34 above regarding non-compliance with SA 230 stand established.

43. The lack of sufficient documentation in an audit is not merely a technical and procedural formality but is a serious issue that strikes at the very root of the audit and may defeat the very purpose of the audit itself. Lack of sufficient documentation has been viewed seriously by national and international regulators as well. For example, in the matter of Bharat Parikh & Associates Chartered Accountants, dated 19-03-2019, the US audit regulator PCAOB took a serious view on the lack of sufficient documentation and imposed penalties and sanctions for violations including insufficient documentation. The PCAOB Order states *“Audit documentation must contain sufficient information to enable an experienced auditor, having no previous connection with the engagement to (a) understand the nature, timing, extent, and results of the procedures performed, evidence obtained, and conclusions reached, and (b) determine who performed the work and the date such work was completed as well as the person who reviewed the work and the date of such review.....the documentation for each of those audits was insufficient to demonstrate the nature, timing, extent, and results of the procedures performed, evidence obtained, and conclusions reached, including in those areas of the audits involving significant risks. For the FY 2016 and 2017 Issuer A audits, the documentation also failed to demonstrate who performed the work and the date such work was completed. Additionally, in each of the Issuer A and Issuer B audits, the audit documentation was insufficient to demonstrate which aspects of the audit and which audit documentation Bharat Parikh reviewed”*.

#### **Non-Compliance with SA 700, “Forming an Opinion and Reporting on Financial Statements”**

44. The EP was charged with non-compliance with SA 700. As per SA 700<sup>15</sup> in order to form an opinion, the auditor shall conclude as to whether the auditor has obtained reasonable assurance whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Such a conclusion shall take into account, inter alia, whether sufficient appropriate audit evidence has been obtained and whether uncorrected misstatements are material, individually or in aggregate. Since the unmodified opinion expressed by the EP is not supported by evidence, the EP was charged with non-compliance with SA 700<sup>16</sup>.
45. The EP replied that *“Since we have obtained sufficient and appropriate audit evidences and we have checked that Branches have not violated NHB Guidelines we have given above report without qualification.”*
46. The EP has not even determined any planning and performance materiality in terms of SA 320. The details of audit procedures performed and the conclusions reached thereon are

---

<sup>15</sup> Para 10 to 12 of SA 700, Forming an Opinion and Reporting on Financial Statements

<sup>16</sup> Para 11 of SA 700

also not available in the Audit File. As per the SAs, the EP is required to evaluate the effect of the misstatements, if any, and decide to appropriately modify his opinion. In the absence of documented procedures as per SA 230 and conclusions, there is no evidence that the EP has obtained reasonable assurance that the financial information is free from material misstatements. Thus, the EP issued an unmodified opinion without complying with the requirements of SA 700.

47. Therefore, in the absence of any documented conclusions, determination of materiality and assessment of the risk of material misstatements and the test of controls, we observe that the unmodified opinion issued by EP is baseless. Hence, the charges in para 44 above regarding non-compliance with SA 700 stand proved.

### **Non-Compliance with other SAs**

48. The EP was charged with non-compliance with the following provisions of SAs:
- a. Para 6, 7, 8, 9 & 10 of SA 300<sup>17</sup> as the EP failed in establishing an overall audit strategy and development of audit plan etc. in accordance with SA 300. The EP submitted that Audit Plan was "*as per Audit Log Book*". The EP's contention is not accepted since the "*Audit Log Book*" submitted by the EP along with the reply to the SCN does not form part of the Audit File.. The EP's claim in his additional written submissions that "*pre-audit briefings*" and "*ratio analysis*" were performed is also not supported by any evidence in the Audit File.
  - b. Para 5, 6 & 11 of SA 315 as the audit file lacks any documentation regarding the performance of risk assessment procedures for material misstatements at the financial statement level and assertion level and response to such risks etc. The EP submitted that they "*performed Analytical procedures in terms of Ledger Scrutiny, Comparison with Previous Year Trial Balance and ABC Analysis*". In his additional written submissions, the EP claims to have performed risk assessment procedures, including inquiries and inspections. The EP's contention cannot be accepted for the absence of any evidence in the Audit File to support the performance of any audit procedures.
  - c. Para 10, 11 & 14 of SA 320 for determining materiality, performance materiality and documentation thereof. The EP submitted that "*We, as Branch Auditors, were concerned with one class of transactions, namely, granting of home loans and recovery thereof at the Branch. Therefore, aspect of materiality was limited to that set of transactions only...*". The EP's contentions cannot be accepted since materiality needs to be decided at the assertion level as well, however, there is no determination of materiality by the EP in the Audit.
  - d. Para 6 of SA 520<sup>18</sup> relating to the design and performance of analytical procedures. The EP submitted that "*an audit procedure of ledger Scrutiny for overall Checks was performed*". In the absence of documentary evidence in the audit file, contention cannot be accepted.

---

<sup>17</sup> SA 300, Planning an Audit of Financial Statements.

<sup>18</sup> SA 520, Analytical Procedures

- e. Para 4, 6, 7, 8 & 9 of SA 530<sup>19</sup> relating to the determination of sample design, sample size and required audit procedures. The EP submitted that “*Housing Loan Samples were designed on materiality as well as fairness criteria. Sample in respect on Non housing transactions was designed on the basis of principle of ABC Analysis*”. In a scenario of non-determination of materiality and absence of any evidence to show compliance with the determination of sample design, sample size and audit procedures performed on it, the contentions of the EP are without any basis.
  - f. Para 8, 9 & 10 of SA 580<sup>20</sup> regarding obtaining written representations from the management about their responsibilities. The EP submitted that “*Trial Balance, Bank Reconciliation statements, insurance details and Bank statements were signed by Branch Manager. Further loan data verification was signed by Branch Manager. These documents are in place as a representation by Branch.*” EP’s contention cannot be accepted in view of the mandatory requirement of SA 580 to obtain written representation.
49. The reply of the EP is not acceptable in the absence of any evidence in the Audit File. The replies are also not in conformity with the SAs for the reasons stated in Para 36 to 42 and Para 50 above read with the requirements of para 75 of SQC 1 and paras 14, 15 and A21 of SA 230 regarding the completion of the assembly of the final audit engagement files within 60 days after the date of the auditor’s report.

#### **D. ARTICLES OF CHARGES OF PROFESSIONAL MISCONDUCT BY THE EP**

50. Given the above-mentioned actions and omissions, it is established that CA Rashmikant D. Kundalia did not comply with the stipulations in the Chartered Accountants Act, 1949 regarding the acceptance of the statutory audit engagement and showed gross negligence and lack of due diligence while accepting an invalid appointment as auditor. In addition to accepting a legally invalid appointment, the EP also did not ensure the audit quality. The EP was grossly negligent in performing 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 not backed by valid audit evidence and the absence of quality in the audit work. Specifically, the following failures on the part of EP Rashmikant D. Kundalia as contained under the Articles of Charges in the SCN are established.
- a) Failure to exercise due diligence and ascertain from the audited Company whether the requirements of Sections 139 of the Act in respect of such appointment had been duly complied with, as explained and proved in part C-I above. (As per Section 22 and Clause 9 of Part I of the First Schedule to the CAs Act);
  - b) 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-I and C-II above. (As per Section 22 and Clause 7 of Part I of the Second Schedule to the CAs Act);

---

<sup>19</sup> SA 530, Audit Sampling

<sup>20</sup> SA 580, Written Representations



- c) 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-II above. (As per Section 22 and Clause 8 of Part I of the Second Schedule to the CAs Act); and
- d) Failure to invite attention to material departure from the generally accepted procedures of audit applicable to the circumstances of the audited Company, because the EP certified in the 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-II above. (As per Section 22 and Clause 9 of Part I of the Second Schedule to the CAs Act).

Thus, we find that EP Rashmikant D. Kundalia committed professional misconduct, as defined in the respective clauses of the CAs Act, the meaning of which is conceived under Section 132 (4) of the Companies Act as amounting to professional misconduct.

#### **E. PENALTY AND SANCTIONS**

51. Section 132(4) of the Companies Act, 2013 provides for penalties in a case where professional misconduct is proved. The law lays down a minimum punishment for such misconduct.
52. The information contained in the Financial Statement, in this case, includes material information from the Branches of the Company, where a substantial part of the lending activities was carried out.
53. A Branch Auditor is duty-bound to examine and ascertain the integrity of the underlying information forming Financial Statements of such entities<sup>21</sup> in the larger public interest.
54. In this case, while all the documents and reports described the engagement as a statutory branch audit and while in substance as well as in form it was a statutory branch audit, none of the legal requirements regarding the appointment of the statutory audit were complied with. More importantly, the EP performed the audit as a statutory audit. He was well aware that these reports would ultimately be used by the Company's auditor, to whom these reports were addressed. The EP also certified in his report that the engagement is performed as per SAs. Despite all these facts, the evidence shows several non-compliance with applicable SAs. The nature and extent of non-compliance with the SAs led to a baseless audit opinion, which was finally referred to in the report of Chaturvedi & Shah, the Company's statutory auditors.
55. The EP in the present case was required to ensure compliance with SAs to achieve the necessary audit quality and lend credibility to the reports he issued to facilitate the Company's Auditor to issue their report on the Financial Statements. As detailed in the foregoing paragraphs, there were deficiencies in the Audit and abdication of responsibility on the part of CA Rashmikant D. Kundalia right from the acceptance of the Audit without due diligence in ascertaining the validity of the offer, to the actual conduct of the audit, which establishes his gross negligence resulting in professional misconduct. In fact,

As defined in Rule 3 of NFRA Rules 2018

accepting an audit assignment in contravention of the Law and continuing it in non-conformity with the SAs, constitutes a flagrant violation of the Law. We also conclude that despite being a qualified professional, CA Rashmikant D. Kundalia has not adhered to the Standards on Auditing and the provisions of the Law.

56. As demonstrated by the discussions above, there are gaps in his understanding of SAs that need to be addressed.
57. We also note that the EP has admitted the lapse in accepting the Audit. Considering the fact that the professional misconducts have been proved and considering the nature of violations and principles of proportionality and keeping in mind the deterrence, proportionality, signalling value of the sanctions and time required for improvement in knowledge gaps we, in the exercise of powers under Section 132(4)(c) of the Companies Act, 2013, proceed to order the following sanctions:
- i. Imposition of a monetary penalty of ₹ 100,000 (One Lakh) upon CA Rashmikant D. Kundalia;
  - ii. CA Rashmikant D. Kundalia is debarred for **one year** 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.
58. 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/-  
(Smita Jhingan)  
Full-Time Member

Authorised for issue by the National Financial Reporting Authority.

Date: 29.09.2023  
Place: New Delhi

  
(Vidhu Sood)  
Secretary

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

To,  
CA Rashmikant D. Kundalia,  
ICAI Membership No - 036775,  
Partner, M/s R.D. Kundalia & Associates,  
Chartered Accountants,  
(ICAI Firm Registration No: 130789W)  
A-207, Krishna Apartment,  
Bhatt Lane, Poisar Depot,  
S. V. Road, Kandivali-West  
Mumbai – 400 067  
Email: [rashmikantkundalia@yahoo.co.in](mailto:rashmikantkundalia@yahoo.co.in)

Copy To: -

- (i) Secretary, Ministry of Corporate Affairs, Government of India, New Delhi.
- (ii) Reserve Bank of India
- (iii) Securities and Exchange Board of India, Mumbai.
- (iv) Secretary, Institute of Chartered Accountants of India, New Delhi.
- (v) The Compliance Officer, DHFL
- (vi) IT-Team, NFRA for uploading the order on the website of NFRA.