

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

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Kasturba Gandhi Marg, New Delhi

Order No. 47/2023

Date: 29.09.2023

**ORDER**

**In the matter of CA Dhiraj Parasmal Jain, ICAI Membership No. 144738 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 20.10.2022, issued to CA Dhiraj Parasmal Jain, Partner at Atul Dhiraj & Co., Chartered Accountants (Firm Registration No: 133405W, who is a Member of the Institute of Chartered Accountants of India (ICAI Membership No. 144738) and was the Engagement Partner (EP) for the statutory audit of four 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 Dhiraj Parasmal Jain for his role as the Engagement Partner (EP) in the audit of four 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. NFRA investigated these EPs responsible for the branch audits under section 132 (4) of the Companies Act, 2013 (the Act), including CA Dhiraj Parasmal Jain, who was the EP for the audit of four 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 Dhiraj Parasmal Jain 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 Dhiraj Parasmal Jain 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 his defective appointment, the Branch Audit performed by CA Dhiraj Parasmal Jain 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 Dhiraj Parasmal Jain, had not complied with the requirements laid down in the SAs, had not maintained proper audit documentation and displayed a flawed understanding of 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 Dhiraj Parasmal Jain a monetary penalty of ₹1,00,000/- (One Lakh) and debarment for six months 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 Dhiraj Parasmal Jain, to whom this Order relates and who acted as the branch auditor for the four branches of DHFL at Dahanu, Naigaon, Palghar and Wada.
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.

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

9. As part of NFRA's investigations, CA Dhiraj Parasmal Jain was asked to provide the Audit File vide NFRA letter dated 10.08.2022, giving 15 days' time. The EP submitted the Audit File along with other information in respect of the four branches for FY 2017-18 on 25.08.2022.
10. The investigation by NFRA revealed prima facie, 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 Dhiraj Parasmal Jain on 20.10.2022, 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 four 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.
11. The EP was asked to submit his reply to SCN by 18.11.2022 but was granted an extension of time following a request vide e-mail dated 17.11.2022. The EP submitted the reply on 02.12.2022. Along with his reply to the SCN, the EP submitted "*Further documents in Audit File*" via two emails wherein some additional documents related to the four DHFL branches were submitted.
12. The EP availed of the opportunity for a personal hearing and attended the personal hearing on 20.02.2023 before the Executive Body of NFRA. During the personal hearing, the EP stated that he did not verify the compliances related to his appointment as Statutory Branch Auditor since he believed that DHFL being a large and listed entity would ensure all the compliances. The various charges levied in the SCN and the response of the EP to the charges are discussed in Part C of this Order.

### **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.

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<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).

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 *“I submit that non-availability of resolution of members for appointment as Branch Auditors has gone unnoticed till the receipt of SCN. In an Organisation with the kind of magnitude of operations and the existence of professionals at the helm of affairs of the respective functions, it did not occur that such a basic condition is not complied with by the Organisation while intimating the appointment requiring raising query at our firm’s end about the said resolution... As a matter of fact our firm acted as Branch Auditor (notwithstanding the irregularity in appointment) and all concerned accepted the same... Having stated that the said non-compliance has gone unnoticed and was an innocent and accidental omission, the further allegations on account of the same are only consequential in nature not requiring any separate explanation.”*
17. EP’s admission that he did not verify the compliances related to the appointment proves the charges in Para 14 & 15 above. On examination of the replies of the EP, we find that 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.
18. 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)<sup>3</sup> 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) in respect of such appointment have been duly complied with.
19. 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”.*
20. As per Section 143 (8) of the Act, the appointment of 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

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<sup>3</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.

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, EP's acceptance vide letter dated 28.08.2017 of the appointment as Statutory Auditor of the branches and issuance of the "Independent Branch Auditor's Report" for the four Branches of DHFL describing the engagement as Branch Statutory Audit confirms the absence of professional skepticism and lack of due diligence on his part.

21. 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 Clause 9 of Part I of the First Schedule. The non-compliance is thus 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>4</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 13 and 14 above stand proved.

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

22. Notwithstanding our finding in Part I above that the appointment of CA Dhiraj Parasmal Jain was not as per the provisions of the Law, we now discuss the non-compliance by CA Dhiraj Parasmal Jain 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 the 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,

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<sup>4</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)

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.

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

23. The EP was charged with non-compliance with SA 210<sup>5</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>6</sup> as well. SA 210<sup>7</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.
24. The EP in his reply submitted that *“I submit that the letter no. DHFL/Accounts/2017-18/03 dated 23.08.2017 issued by the Company to us itself stated the guidelines for Statutory Audit of Branches, brief indicative scope of work as per the Companies Act with specific requirements of work and various annexures required were annexed thereto. The said guidelines specified the areas of scope and reporting formats. The draft reports requirement as shared by DHFL clearly indicated in Annexure VI separately the Management’s Responsibility and the Auditor’s Responsibility for the Financial Statements. All the necessary requirements of the engagement letter to be issued by the auditor are covered in the letter”*.
25. 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 the objective of the audit, a proper description of the responsibilities of the auditor and the management and the applicable financial reporting framework<sup>8</sup>. Such an audit engagement letter (as prescribed by SA 210) was not found to have been issued by EP. The EP’s response above shows a flawed understanding of the scope of SA 210.
26. 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 limited to “Statutory Branch Audit”, but additionally included verification of certain specific areas. In such a scenario, it was even more important for the auditor to send an audit engagement letter, as mandated by SA 210, 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.
27. We conclude that EP’s negligence of the provisions of SA 210 has resulted in accepting an invalid appointment and issuing a report that is not appropriate to the situation. Thus, apart from the non-compliance with SA 210, this shows the absence of professional skepticism and professional

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<sup>5</sup> SA 210, Agreeing the Terms of Audit Engagements.

<sup>6</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>7</sup> Para 9, 10 and 11 of SA 210

<sup>8</sup> The sample engagement letter provided in appendix I of SA 210 may be referred.

judgment in understanding the objective and scope of the audit, thereby violating SA 200 also. Therefore, the charges in para 23 above stand proved.

#### **Non-Compliance with SA 230 “Audit Documentation”**

28. The EP was charged with non-compliance with SA 230<sup>9</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.
29. The EP in his reply stated that *“on reading the SCN it is realized that many other documents which are relevant and/or connected to the Audit have not come on record with NFRA, as the said documents were maintained in other file/s as working papers. I am, therefore, submitting such remaining documents with this reply with Index titled as “Further documents in Audit File” with a request to take the same on record for consideration in the in the interest of justice”*. The EP referred to these *“Further Documents in Audit File”* (inter alia containing purported working papers from previous year’s audit files) and submitted point-wise reply to the charges in the SCN.
30. We have examined the EP's contentions vis-à-vis the provisions in SA 230 and find that the replies are not acceptable for the following reasons:
  - a. 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 Audit; and evidence that a planned performance of the Audit was done in accordance with SAs and relevant 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.
  - b. Apart from SA 230, there are other SAs also that 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 is explicit: "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.
  - c. Para 8 of 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,

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<sup>9</sup> SA 230 – Audit Documentation

the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.

- d. 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.
  - e. SA 230, para 14, requires the assembly of the audit documentation in an audit file. SQC 1<sup>10</sup> prescribes a maximum time of 60 days for completion of assembly, beyond which no modification other than administrative changes is permitted in the Audit File.
31. Keeping the above in mind, we have examined the additional documents submitted by the EP in the interest of fairness and have taken the evidence into consideration wherever it supports or corroborates the original audit documentation submitted to NFRA. However, additional documentation submitted to NFRA was deficient in terms of the nature, timing and extent of the audit procedures performed, who prepared and reviewed the audit working papers (WPs) and the timing of the audit procedures.
32. The EP was charged that the Audit File does not contain even 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>11</sup>): The EP submitted that *“The branch operations were restricted to general administration work which was well known to us and a summary of the same is available with us in the form of written commentary on the basis of discussion with management and information provided by them”* and provided a document purportedly *“summary note”* from his previous year Audit File. Without prejudice to the requirements of SA 230 regarding the timely completion of audit documentation, as stated in para 29 above, we examined the additional working paper now submitted by the EP. The working papers cannot be accepted since it does not meet the requirements of SA 230. There is no indication of who prepared these working papers, who reviewed them and the time of preparation. The working papers carry no evidence of the nature of audit procedures performed for obtaining an understanding of the (i) Relevant industry, regulatory, and other external factors including the applicable financial reporting framework, (ii) The entity’s selection and application of accounting policies, (iii) The entity’s objectives and strategies, and those related business risks that may result in risks of material misstatement, (iv) The measurement and review of the entity’s financial performance, (v) Internal controls, etc. as required by SA 315<sup>12</sup>.
  - b. Audit plan made after understanding the branch operations in accordance with SA 300: In response, EP has referred to *“H1 Audit Programme”* and *“H2 Audit Programme”* submitted as additional documents along with the reply to SCN. However, on examination, we found that they are deficient in terms of (i) an overall audit strategy that sets the scope, timing and direction of the audit, and that guides the development of the audit plan in line with the requirement of para 7 of SA 300, (ii) nature, timing and extent of planned risk assessment procedures, (iii) nature, timing and extent of planned further audit procedures at the assertion level, (iv) Other planned audit procedures, (v) nature, timing and extent of direction and

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<sup>10</sup> 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.

<sup>11</sup> SA 315, Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment

<sup>12</sup> Para 11 to Para 26 and Para 32 of SA 315



supervision of engagement team members and the review of their work, etc as required by SA 300<sup>13</sup>.

- c. Determination of materiality levels (refer to SA 320<sup>14</sup>): In reply, EP submitted that *“We have applied our professional judgement in respect of each item of the trial balance with respect to materiality as and when they arose”*. The reply cannot be accepted in the absence of any working paper evidencing determination and application of materiality, performance materiality and documentation thereof as required by SA 320<sup>15</sup>.
  - d. Understanding of the IT system controls (refer to SA 315): The EP replied that *“As per discussion with management and based on inputs received from them, IT system controls are maintained and managed at Head Office Level and not Branch Level”*. In the absence of any working paper evidencing such discussion and understanding, EP’s contention cannot be accepted.
  - e. Summary of the accounting policies, observations from previous audits, inspection reports, and internal audit reports (refer to SA 315): EP responded that *“Accounting Policies are dealt at Head Office Level. As far as the observation from previous audits, the reports themselves are referred to by us. There have been no inspection and internal audit reports for the concerned branches audited by us”*. EP’s contention cannot be accepted in the absence of documentation of such fact in his Audit File.
  - f. Procedures adopted to verify the loans sanctioned during the year (substantive audit procedures): EP has replied that *“We have performed ...a thorough check of the documents available in the respective loan files such as Sanction Terms, Special Sanction Terms, KYC Documents of the borrowers, Income Documents of the borrowers, Legal Search Documents, Valuation Reports of legal counsel...”*. However, there is no working paper in the Audit File evidencing performance of such procedures by the EP. Only evidence is (extracts of) a few *“lease agreements”* submitted as additional documents.
  - g. KYC verification, anti-money laundering verification, security verification (substantive audit procedures): In response, EP has stated that *“KYC verification of borrowers was done by checking the copies of documents provided by the borrowers... Security verification was done by checking the original property papers pledged by borrowers as collateral... Having regard to...nature of business and ticket size of loans we honestly believed that there was no room for money laundering...There was no trigger of any suspicion of money laundering in the context of small branches audited by us.”* However, there is no working paper in the Audit File evidencing the performance of any procedures by the EP.
33. 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 above facts are evidence that the EP did not follow the requirements of SA 230 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 28 regarding non-compliance with SA 230 stand established.
34. 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

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<sup>13</sup> Para 6, 7, 8, 9 and 10 of SA 300

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

<sup>15</sup> Para 10, 11 & 14 of SA 320

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”**

35. The EP was charged with non-compliance with SA 700. As per SA 700<sup>16</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. In the Annexures to the audit report, the EP noted that for some of the loan files the required documents were not obtained. However, the EP did not document how this deficiency in documentation was evaluated in forming an unmodified opinion. Since, the unmodified opinion expressed by the EP is not supported by evidence, the EP was charged with non-compliance with SA 700<sup>17</sup>.
36. In the “Certificate” of Loan Files Checked, EP noted that “*Loan files have been verified by us on the basis of availability of the Loan files and dockets with the Regional Processing Unit. We have been informed that the same are maintained by a separate agency and therefore we could verify only those loan files which were available at the storage facility of the Regional Processing Unit*”. There is no explanation about the impact of the records not made available for verification. Thus, the EP did not obtain sufficient and appropriate audit evidence as required by SA 700.
37. The EP submitted that “*we selected 15 loan file numbers on random basis and asked for the same from the Regional Processing Unit. However, only 13 files were made available as remaining two were with third party storage agency. We therefore gave other 2 loan file numbers again on random basis to the Regional Processing Unit which were made available. In the circumstances, it cannot be said that we did not obtain sufficient and appropriate audit evidence as required by SA 700*”.
38. The EP’s contention, that he changed the samples when an anomaly was noticed, goes against the basic principles of SA 530, Audit Sampling. When the random samples selected by the EP showed some anomalies, the EP was required to investigate the reasons and evaluate the possible effect on the purpose of the audit procedures<sup>18</sup>. There is no such examination documentation in the Audit File. The removal of the samples which were not made available and the inclusion of other files instead shows bias and makes the sample not representative of the population<sup>19</sup>. Further, the EP has

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<sup>16</sup> Para 10 to 12 of SA 700, Forming an Opinion and Reporting on Financial Statements

<sup>17</sup> Para 11 of SA 700

<sup>18</sup> Para 12 of SA 530, Audit Sampling

<sup>19</sup> Para 8 and A12 of SA 530, Audit Sampling

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 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 and conclusions, there is no evidence that the EP has obtained reasonable assurance that the financial information is free from material misstatements. However, the EP issued an unmodified opinion without complying with the requirements of SA 700.

39. Therefore, in the absence of any documented conclusions, determination of materiality and assessment of the risk of material misstatements and the test of controls and based on the contradictory evidence mentioned in para 35 above, we observe that the unmodified opinion issued by EP is baseless. Hence, the charges in para 35 regarding non-compliance with SA 700 stand proved.
40. We also note that such lapses relating to the verification of documents during the audit are viewed seriously by audit regulators. A Chartered Accountant, in the audit of a Bank branch, did not verify the securities for debts and was held guilty of professional misconduct of absence of due diligence and gross negligence. (A.N. Kapur -vs.- R.N. Budhiraja; Page- 374 of Vol. IX (1) of the Disciplinary Cases- ICAI Council's decision dated 11th and 12th April 2008).

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

41. The EP was charged with non-compliance with the following provisions of SAs:
  - a. Para 6, 7, 8, 9 & 10 of SA 300<sup>20</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 "*As per further documents in audit file submitted... we have established overall audit strategy and developed an audit plan in accordance with SA 300*". In the absence of an Audit Plan and an Audit Strategy made in compliance with SA 300 (as detailed in Para 30 b above), the reply of the EP is not acceptable.
  - b. Para 5, 6 & 11 of SA 315 and para 1, 5 & 6 of SA 330<sup>21</sup> 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 "*During the course of our audit, no material misstatement at the financial statement level was observed and therefore no such documents were prepared regarding the same*". In terms of the specific documentation requirement in SA 315<sup>22</sup>, EP's contention cannot be accepted.
  - c. Para 10, 11 & 14 of SA 320 for determining materiality, performance materiality and documentation thereof. EP submitted that "*...there were no situations visualized requiring pre-determination of materiality levels in writing. However, in the course of audit, the concept of materiality was always borne in mind in respect of each transaction*". Para 5 of SA 320 makes it clear that "the concept of materiality is applied by the auditor both in planning and performing the audit and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report". Mandatory documentation requirements of SA 320 include the factors considered in the determination of materiality and materiality for the financial statements as a whole, the materiality level or levels for particular classes of transactions, account balances

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<sup>20</sup> SA 300, planning an Audit of Financial Statements.

<sup>21</sup> SA 330, The Auditor's Responses to Assessed Risks

<sup>22</sup> Para 32 of SA 315

or disclosures, performance materiality and any revision of the materiality amounts as the audit progress. The audit documentation in the present case did not contain any of these details and hence the replies of the EP are not acceptable.

- d. Para 5, 6, 8, 14 & 15 of SA 450 absent the evaluation of identified misstatements and uncorrected misstatements. The EP submitted that “*we did not find misstatements*”. In the absence of any (a) documented conclusions on the observations noted by the EP in respect of several loan files (as detailed in para 35 to 38 above) and of (b) working papers fulfilling mandatory documentation requirements of SA 450, EP’s claims cannot be accepted.
  - e. Para 6 & 9 of SA 500<sup>23</sup> in not designing and performing audit procedures to obtain sufficient appropriate audit evidence and not evaluate the reliability of information produced by the company. The EP submitted that “*Considering the scope and extent of audit, it was not considered necessary to design in writing in the form of a document the relevant audit procedure. However, the audit procedure contemplated by Para 6 and 9 of SA 500 have been followed*”. In view of the unresolved observations noted by the EP in respect of several loan files (as detailed in para 35 to 38 above) and the absence of any documented conclusions thereon, the EP’s response cannot be accepted.
  - f. Para 6 of SA 520<sup>24</sup> relating to the design and performance of analytical procedures. The EP submitted that “*the analytical procedures as contemplated by para 6 of SA 520 were duly complied with. Considering the scope and extent of audit, it was not reduced in writing as a document*”. The replies are not accepted since there is no evidence in the Audit File that EP performed any such procedures.
  - g. Para 4, 6, 7, 8 & 9 of SA 530<sup>25</sup> relating to the determination of sample design, sample size and required audit procedures. The EP stated “*As per further documents in audit file submitted... sample design and sample size and required audit procedures are sufficient*”. On examination of further documents, we find that there is no evidence that any of the sampling and the related procedures as detailed in SA 530 have been complied with by the EP, while the audit opinion is based on sample testing. In the absence of any evidence to show compliance with the determination of sample design, sample size and audit procedures performed on it and the observations noted in para 38 above regarding sample selection, the contentions of the EP are not accepted.
  - h. Para 8, 9 & 10 of SA 580<sup>26</sup> regarding obtaining written representations from the management about their responsibilities. EP submitted that “*Since we did not find any material irregularities in the course of audit, the management representation letter was not insisted*”. In view of the mandatory requirements of SA 580 in the paras mentioned, the replies of the EP are not acceptable.
42. Thus, for the reasons stated in Para 41 above, we conclude that the EP failed to comply with the above requirements of the SAs.

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

43. Given the above-mentioned actions and omissions, it is established that CA Dhiraj Parasomal Jain 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

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<sup>23</sup> SA 500, Audit Evidence

<sup>24</sup> SA 520, Analytical Procedures

<sup>25</sup> SA 530, Audit Sampling

<sup>26</sup> SA 580, Written Representations

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 Dhiraj Parasmal Jain 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 the Part I of Second Schedule to the CAs Act);
- 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 Dhiraj Parasmal Jain 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**

44. 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.
45. 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.
46. A Branch Auditor is duty-bound to examine and ascertain the integrity of the underlying information forming Financial Statements of such entities<sup>27</sup> in the larger public interest.
47. 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 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.

<sup>27</sup> As defined in Rule 3 of NFRA Rules 2018

48. 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 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, 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 Dhiraj Parasmal Jain has not adhered to the Standards on Auditing or provisions of the law.
49. As demonstrated by the discussions above, there are gaps in his understanding of SAs that need to be addressed.
50. We also note that the EP has admitted the lapse in accepting the Audit. Considering the fact that professional misconduct has been proved and the EP has admitted the fact regarding the invalid appointment and considering the nature of violations and principles of proportionality and keeping in mind the deterrence, 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:
- Imposition of a monetary penalty of ₹ 100,000 (One Lakh) upon CA Dhiraj Parasmal Jain;
  - CA Dhiraj Parasmal Jain is debarred for **six months** 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.
51. 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 Jhingran)  
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 Dhiraj Parasmal Jain,  
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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) The Compliance Officer, DHFL
- (v) Secretary, Institute of Chartered Accountants of India, New Delhi.
- (vi) IT-Team, NFRA for uploading the order on the website of NFRA.