

Potable Water. By virtue of being listed, MIIL falls under the jurisdiction of NFRA under Rule 3 of NFRA Rules, 2018.

6. M/s Rohira Mehta & Associates, Chartered Accountants (presently RMA & Co.), Firm Registration No 118777W, was the statutory auditor of MIIL and CA Nilesh Chheda was the Engagement Partner (EP) for this statutory audit for the FY 2016-17.
7. Finding a prima facie case for investigation following the SEBI information, NFRA called for the Audit File on 03.08.2022. A review of the Audit File revealed a number of significant failures on the part of the EP and a SCN identifying the EP's professional misconduct was issued to the EP on 16.11.2022. The EP replied to the SCN on 16.01.2023 after availing extension of time. The EP availed of the personal hearing held on 21.09.2023 at the office of NFRA along with his legal counsel.
8. This Order contains our findings on the instances of professional misconduct against the EP, examined in light of his reply to the SCN, proceedings in the personal hearing and other material on record. The major lapses have been discussed in section C, while other lapses have been discussed in section D of this Order. These lapses relate to the EP's failure to identify and report material misstatements in the financial statements and sub-standard audit work in view of the following:
 - a) The EP 'Qualified' his opinion on Consolidated Financial Statements (CFS) stating that the Financial Statements reflected 'true and fair view' except for the effect of non-consolidation of a subsidiary, Merino Shelters Private Limited (MSPL). This was not correct as the impact of the grounds for qualification was both material and pervasive since the assets and liabilities of MSPL constituted about 19.20% and 28.96 % respectively of the assets and liabilities of MIIL. As per Para 8 of SA 705, the EP was required to give an adverse opinion (**para 18-21**) where the effect is material and pervasive.
 - b) Financial Statements did not contain required disclosures mandated by Ind AS 24² and the Act, in respect of critical and sensitive information pertaining to Related Party Transactions and non-disclosure of full particulars of loans etc. (**para 84-86 and 91-93**).
 - c) Disclosures in respect of Credit Risk Profile of Trade Receivables were erroneous and were not in compliance with requirements of Ind AS 107³ (**para 35-44**).
 - d) The EP did not obtain Sufficient Appropriate Audit Evidence (SAAE) in a number of critical areas of audit viz., non-consolidation of a material subsidiary (**para 18-21**), credit risk evaluation of Trade Receivables (**para 43-44**) and failure to perform risk assessment procedures and response to such risks (**para 64-72**).
 - e) The EP failed to demonstrate sufficiency and appropriateness of audit work in virtually every critical building block of an audit of Financial Statements i.e., Audit Strategy, Planning (**para 45 to 48**), Analytical Procedures (**para 50-54**), Determining Materiality (**para 55 to 61**), identification and assessment of ROMM through an understanding of the entity's environment and internal control (**para 62 to 66**),

² Indian Accounting Standard 24, Related Party Disclosures (Ind AS 24)

³ Indian Accounting Standard 107, Financial Instruments: Disclosures (Ind AS 107)

- (c) failure to exercise due diligence, and being grossly negligent in the conduct of professional duties;
- (d) failure to obtain sufficient information which is necessary for expression of an opinion, or its exceptions are sufficiently material to negate the expression of an opinion; and
- (e) failure to invite attention to any material departure from the generally accepted procedures of audit applicable to the circumstances.

17. The EP vide letter dated 15.12.2022 requested for extension of time for submission of reply to the SCN, which was granted. The EP submitted his reply vide email dated 16.01.2023. The EP also availed the opportunity of personal hearing, which was held on 21.09.2023 at the office of NFRA, New Delhi. The EP was assisted by Mr. Nirav Mehta, Partner of the firm, and was also represented by legal counsel Mr. Karan Malhotra, Advocate. This Order is based on the review of the Audit File, written responses of the EP, submissions made during and after personal hearing and other material available on record. Each of the charges in the SCN is analysed and discussed in Part C and D of this Order.

C. MAJOR LAPSES IN THE AUDIT

C1. Failure to report non-consolidation of subsidiary

18. The EP was charged with failure to appropriately modify his audit opinion as per SA 705, even though the accounts of MIIL's wholly owned subsidiary viz., Merino Shelters Pvt. Ltd (MSPL), were not consolidated in the Financial Statements of MIIL, as per Ind AS 110.⁶ The EP had qualified his Audit Report for non-consolidation of MSPL in the Financial Statements of MIIL. MSPL was the wholly owned subsidiary of MAN Infra Projects Private Limited (MIPL), which in turn was the wholly owned subsidiary of MIIL. Pursuant to the Scheme of Arrangement approved by Hon. High Court of Bombay vide order dated 20.03.2015, which was to be made effective from 01.04.2013, the shares held by MIPL in MSPL were transferred to MIIL and accordingly MSPL became wholly owned subsidiary of the MIIL from 01.04.2013. MIIL gave effect to this Scheme of Arrangement in its Financial Statements for the FY 2014-15 but discontinued the consolidation from FY 2016-17.
19. The EP replied that they had been informed of an ongoing legal dispute between the promoters in relation to the control of MSPL pending in Hon. Bombay High Court, and that the consolidation of the financials of MSPL as a subsidiary of MIIL would not only lead to an incorrect disclosure but also result in contempt of court due to the pendency of the proceedings before the Hon. Bombay High Court. The EP submitted that he relied on a legal opinion obtained by the Company from M/s. Kanga & Co dated 18.12.2015 wherein they had advised MIIL not to treat MSPL as a wholly owned subsidiary of MIIL and not to consolidate the financials of MSPL with MIIL till the legal proceedings were disposed of. The EP stated that non-consolidation of MSPL barely had any material

⁶ Indian Accounting Standard (Ind AS) 110, *Consolidated Financial Statements*

impact on the Financial Statements of MIIL and would not be pervasive in nature and therefore, not meriting an adverse opinion.

20. In the Personal Hearing (PH) held on 21.09.2023, when specifically asked whether there was any stay granted by Hon. Bombay High Court in respect of the Scheme of Arrangement referred to in the preceding paragraph, the EP replied that there was no stay order, and his qualification was based on legal opinion provided by the Company. The EP admitted that he should have given an adverse opinion instead of a mere qualification in view of the material and pervasive effect of the non-consolidation. NFRA also sought clarification from the Company whether there was any stay order of Hon. Bombay High Court on consolidation of MSPL with MIIL and provide a copy of such order, if any. The Company vide email dated November 20, 2023, informed that the legal opinion obtained from a reputed law firm in December 2015 was that since the Hon. Bombay High Court was seized with the implementation of the Scheme of Merger and Demerger, consolidation of MSPL with MIIL be deferred until adjudication thereof.
21. The EP issued a qualified opinion on account of non-consolidation of MSPL in MIIL. The EP stated in his reply to the SCN that the consolidation would have resulted in contempt of the court of law due to the pendency of the proceedings before the Hon. Bombay High Court. We observe that the Audit File for FY 2016-17 as also the EP's reply to the SCN, do not contain any order of Hon. Bombay High Court, nor any evaluation of the legal opinion provided by the Company taken in 2015. In light of the details in paragraph 20 above, it is seen that the Hon. Bombay High Court had not stayed consolidation of the said account. Thus, the plea taken by the EP does not hold. The impact of non-consolidation of Financial Statements of MSPL into that of MIIL was material and pervasive, as the assets and liabilities of MSPL constituted about 19.20% and 28.96 % respectively of the assets and liabilities of MIIL (Table 2) and resulted in exclusion of additional information, required under Schedule III to the Companies Act, 2013, of enterprises consolidated as subsidiary/ associates /joint ventures.

Table 2

(In Rs. Crore)

Particulars	MIIL (Published Consolidated Financials) As on 31.03.2017	MSPL as on 31.03.2017	MSPL as % of MIIL
Total Assets	1356.39	260.43	19.20 %
Total Liabilities	758.11	219.57	28.96 %
Net Worth	598.28	40.85	6.83 %

In light of above, we conclude that the qualified opinion by the EP, when there was sufficient basis for an adverse opinion, was without due diligence and without obtaining sufficient appropriate audit evidence, and thus the EP failed to comply with Para 8 of SA 705. As mentioned above, the EP too during personal hearing has acknowledged this lapse.

C2. Failure to prepare audit documentation

22. The EP was charged with non-compliance with Para 8, 9 and 10 of SA 230⁷.
23. Responding to the charge, the EP submitted that the audit documentation prepared and maintained during the course of audit is sufficient to understand the nature, timing and extent of audit procedures performed to comply with legal and regulatory requirements. The EP further stated that a proper requisition list was prepared, documents were collated and post-formation of the opinion, a detailed discussion transpired with the EQCR Partner. Thereafter, final audit points were identified by the EP and discussed with the EQCR Partner Nirav B. Mehta, along with the conclusions reached and the basis of such decision has also been recorded⁸. Further, the EP referred to documentation including the valuation report for impairment testing from the external professionals⁹, actuarial valuation report from the external professionals¹⁰, confirmation for bank balance, outstanding bank loan, bank guarantee and letter of credit directly from the bankers¹¹. The EP stated that external confirmations as required by SA 505 had been undertaken by him.
24. Our review of the Audit Files submitted to NFRA shows several anomalies clearly evidencing tampering by creation of additional documents to mislead NFRA. Page Number 11 to 14 of the Audit File 1 HO contains the Audit Firm's letter dated 15 April 2017 to the Company requesting information regarding Statutory Requirements for the period from 01.04.2016 to 31.03.2017 but the letter refers to the facts relating to a later period as shown below:
- i) Clause (A) 9 & 10, reproduced below, contain audit requirements relevant to Goods and Services Tax (GST) which was introduced in India on 01.07.2017. These requirements would not be relevant for the audit of Financial Statements for the Financial Year ending on 31.03.2017 as the GST was introduced at a later date.
- “9. Provide reconciliation of Sales as per GSTR 1, GSTR 3B and Sales as per books of accounts.
10. Provide Reconciliation of balance of GST credit lying in the electronic credit ledger & cash ledger with the balances in the books of accounts.”
- ii) Clause (A) 26 of the letter contains request for ‘Ageing of debtors and creditors o/s as 31.03.2021’ whereas the audit relates to FY ending 31.03.2017.
- iii) Clause B (3) of the above referred work paper requests for details regarding payment made towards GST, which had not even been introduced in the period under audit.
- iv) Clause (B) 10 requests for details of lease rental paid as per Ind AS 116, *Leases*, which came into force for accounting period starting 01.04.2019 and therefore was not relevant for FY ending 31.03.2017.

⁷ SA 230 Audit Documentation

⁸ Page 42 to 43 of Audit Paper Book

⁹ Page 1587 to 1620 of Audit Paper Book

¹⁰ Page 1188 to 1531 & 2848 to 2891 of Audit Paper Book

¹¹ Page 299 to 614 of Audit Paper Book

In view of the above, it is clear that this important work paper has been inserted in the Audit File after the SCN was issued by NFRA and the Audit File has been tampered with while submitting to NFRA pursuant to issuance of SCN by NFRA.

25. When confronted with these facts during the personal hearing, the EP attributed it to a typographical error. Mr. Nirav Mehta, the EQCR Partner, stated that all such information requests to the Company were sent by email, which they shall provide along with Section 65B Certification under Indian Evidence Act. We have reviewed the copies of the emails sent by the EP vide email dated 22.09.2023 and note that the EP had sought information with reference to Accounting Standards such as, revenue recognition in accordance with AS-9, list of all related parties as per AS-18, lease rental received and paid as per AS-19, list and computation of impaired assets as per AS-28 and borrowing costs as per AS-16, which were no longer applicable to the Company as it had prepared and presented the Financial Statements for FY 2016-17 in accordance with Ind ASs. Thus, the papers presented not only establish the tampering of the Audit File but also the complete ignorance of the EP about the applicable accounting framework.

26. Internationally, alteration, backdating of Audit Work Papers, substitution or addition of new AWP's subsequent to the issue of audit report are viewed seriously. For example, PCAOB in the matter of KPMG S.A.S.¹² observed that ‘.....After learning that the Board’s Division of Registration and Inspections (“DRI”) would be inspecting the Firm’s audit work for the Issuer A Component Audit and Issuer B Component Audit, KPMG Colombia personnel improperly modified work papers and backdated those work papers to conceal from DRI that they had been modified. As a result, and as further described below, the Firm violated PCAOB Rule 4006, Duty to Cooperate with Inspectors; AS 3, Audit Documentation; and ET § 102, Integrity and Objectivity’. For this misconduct, inter-alia, a civil money penalty in the amount of USD 4 Million was imposed on KPMG S.A.S., required the firm to undertake remedial actions.

27. We also observed other deficiencies in the following work papers mentioned by the EP in his reply regarding audit documentation:

Table 3

S.No.	Working Paper No.	Particulars	Observation
I.	Working paper at Page 42 to 43 of Audit Paper Book	Working Paper regarding final audit points identified by the EP and discussed with the EQCR Partner	Signed by the EP and EQCR Partner, but no date is mentioned on the work paper. There is no proof that discussion took place and clearance given by EQCR Partner on or before the date of the auditor’s report, as required by the SQC1.
II.	Working paper at Page 1587 to 1620 of Audit Paper Book	Working Paper regarding valuation report for impairment	Valuation report is placed in the Audit File but there is no evaluation by the EP of the valuation report.

¹² PCAOB Release No. 105-2022-034 December 6, 2022

		testing from the external professionals	
III.	Working paper at Page 1488 to 1531 & 2848 to 2891 of Audit Paper Book	Working Paper regarding actuarial valuation report from the external professionals	Valuation report is placed in the Audit File but there is no evaluation by the EP of the valuation done. Actuarial Valuation report was dated 04.08.2017, after the audit report was signed on 30.05.2017. This working paper is incorporated after 60 days of Audit casting serious doubt on the integrity of Audit File.
IV.	Working Paper at Page 299 to 614 of Audit Paper Book	Working Paper regarding confirmation for bank balance, outstanding bank loan, bank guarantee and letter of credit directly from the bankers	As per Para 16 of SA 505, the Auditor shall evaluate whether the results of the external confirmation procedures provide relevant and reliable audit evidence, or whether performing further audit procedures is necessary. No such evaluation is made by the EP and no conclusion is drawn by EP and reviewed by EQCR.

28. Based on the above observations, it is evident that the EP has not prepared audit documentation as per Para 8 of SA 230 which requires the auditor to prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit to understand:
- The nature, timing, and extent of the audit procedures performed to comply with the SAs and applicable legal and regulatory requirements;
 - The results of the audit procedures performed, and the audit evidence obtained; and
 - Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.
29. The averment made by the EP that the audit documentation was sufficient to enable him to understand the nature, timing and extent of audit procedures performed, is not tenable as it fails in one of the objectives of the audit documentation that is sufficient to enable an experienced auditor having no previous connection with the audit to understand (a), (b) and (c) above.
30. Further, there was no audit evidence as to who performed the audit work, who reviewed the audit work performed, and the date and extent of such review, reflecting violation of Para 9 of SA 230.
31. The EP has also failed to document discussions of significant matters with TCWG, including the nature of significant matters discussed, and when and with whom the discussions took place as per Para 10 of SA 230. We therefore conclude that the EP has

not only tampered with the Audit Work Papers but failed to comply with provisions of SA 230 thereby showing gross negligence and failure to adhere to the fundamental principles of Code of Ethics¹³ viz. Integrity and Professional Behavior.

32. The above position clearly demonstrates EP's negligence in the preparation of audit documents and conduct of audit of public interest entity in a casual manner, apart from the misconduct of Audit File tampering. He failed to meet the objectives of SA 230 to prepare documentation that provides sufficient and appropriate record for the basis of auditor's report and evidence that the audit was planned and performed in accordance with SAs. The Audit File primarily contains invoices/bills and information taken from the Company and does not record professional judgements and significant conclusions/decisions made by the EP and the basis for that. Non-documentation of the work performed is clear evidence that the work has not been performed. It is apposite to note the following observations of the Australian Audit Regulator ASIC:

*“Firms often assert that our findings relate to documentation deficiencies in their audit file. An audit file should contain sufficient detail for an experienced auditor to understand the work performed and relied on in forming conclusions. **Where this detail has not been documented, our presumption is that the work has not been performed. We have used this approach for several years and it is consistent with the approach applied globally by other audit regulators and in most firm internal quality review programs.**”¹⁴ (Emphasis supplied)*

33. 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 of the lack of sufficient documentation and imposed penalties and sanctions for violations including insufficient documentation. The PCAOB order states that “...*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.*”

34. The Executive Counsel to the Financial Reporting Council (FRC), the UK Audit Regulator, in the matter pertaining to Deloitte LLP and John Charlton in the audit of Mitie Group plc.

¹³ Para 100.4 (a) and (e) of Code of Ethics 2009 issued by the Institute of Chartered Accountants of India

¹⁴ Refer Page 7 of ASIC Audit Inspection Report – Report 743 October 2022

