

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

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

No. 64/2023

Date: 05.12.2023

Order under Section 132 (4) of the Companies Act, 2013 in respect of CA Amit Vinay Chaturvedi (ICAI Membership No. 103141)

This Order disposes of the Show Cause Notice dated 29.09.2021, issued to CA Amit Vinay Chaturvedi, Partner of M/s Chaturvedi & Shah LLP, (C&S), who is a Member of the Institute of Chartered Accountants of India (ICAI Membership No. 103141) and was the Engagement Quality Control Review (EQCR) Partner for the statutory audit of Dewan Housing Finance Corporation Limited (DHFL), a housing finance company listed on both, Bombay Stock Exchange (BSE) and National Stock Exchange (NSE), for the Financial Year 2017-18. This Order is divided into the following sections:

- A. Executive Summary
- B. Introduction and Background
- C. Preliminary Legal Matters
- D. Major Lapses in the Audit
- E. Articles of Charges of Professional Misconduct
- F. Sanctions and Penalties

A. EXECUTIVE SUMMARY

1. In January 2019, some media reports brought to light the alleged siphoning by the directors of DHFL of around ₹31000 crore of public money. NFRA, pursuant to the duty cast upon it under Section 132 (2) (b) of the Companies Act, 2013 (the Act, hereafter) and Rule 8 of the NFRA Rules, 2018, took up the Audit Quality Review of the Statutory Audit of DHFL for the Financial Year 2017-18 carried out by C&S. Based on the extensive review of audit documentation, proceedings for professional misconduct were initiated against the Engagement Partner (EP) and EQCR Partner. An Order¹ under Section 132 (4) of the Act for professional misconduct dated 05.12.2023 has been passed in the case of EP, which is available on the NFRA website². An SCN was issued to the EQCR Partner of this Engagement, CA Amit Vinay Chaturvedi, Partner of M/s Chaturvedi & Shah LLP, (C&S),

¹ Order No. 63/2023

² <https://nfra.gov.in/>

asking him to show cause why action under Section 132 (4) of the Act should not be initiated against him for professional misconduct.

2. After examining his detailed written submissions, this Order concludes that the EQCR Partner failed to meet the relevant requirements of the SAs and violated the Act in respect of several significant areas. In the areas of the audit identified in this Order, the EQCR Partner was found to be grossly negligent and failed to apply professional skepticism and due diligence sufficiently and adequately while discharging the EQCR functions. The summary of key findings in this Order is as follows.
 - a. The Audit Documentation does not evidence objective evaluation, by the EQCR Partner, of the significant judgments made and the conclusions reached by the Engagement Partner (EP) in formulating the audit report. In the case of Public Interest Companies like DHFL, an objective review is not possible by merely ticking a standard WP template as was done by him. A checklist, relied upon by him to evidence his work, can only be taken as a means to ensure that no significant matter is overlooked or ignored, and not as final evidence of the actual objective review procedures performed by the EQCR Partner.
 - b. SA 220 requires the EQCR Partner to discuss significant matters with the EP and review financial statements and the proposed auditor's report. On a detailed examination, we observe no evidence in the Audit File that EQCR Partner and EP had discussions on all the significant matters during the audit process.
 - c. The EQCR Partner failed to objectively evaluate and question the EP when the EP failed to meet the relevant requirements of the SAs and violated the Act, and the Code of Ethics in respect of several significant areas. These audit areas are explained in NFRA Order No. 63/2023 dated 05.12.2023, issued in the case of EP. The major lapses proved in the Order included false reporting in the Independent Auditor's Report about the audit of branches, failure to report material misstatements in the Consolidated Financial Statements (CFS), failure to examine non-compliance with NHB Directions, failure to verify internal financial controls, failure to assess the risk of material misstatements, failure to evaluate the going concern assumption, and failure to verify the Related Party Transactions.
3. Based on the investigation and proceedings under Section 132 (4) of the Act and after giving the EQCR Partner adequate opportunity to present his case, we find the EQCR Partner guilty of professional misconduct and impose through this Order, the following monetary penalties, and sanctions, which will take effect after 30 days from issuance of this Order. In light of the judgment of the Hon'ble National Company Law Appellate Tribunal (NCLAT) dated 01.12.2023, we have limited the monetary penalty to ₹5 Lakh only since the violations relate to FY 2017-18
 - a. Monetary penalty of ₹5 Lakh on the EQCR Partner, CA Amit Vinay Chaturvedi.
 - b. In addition, CA Amit Vinay Chaturvedi is debarred for Five years from being appointed as an auditor or internal auditor or from undertaking any audit in respect of financial statements or internal audit of the functions and activities of any company or body corporate.

B. INTRODUCTION AND BACKGROUND

4. This Order is being passed pursuant to an investigation by the National Financial Reporting Authority (NFRA) into the professional conduct of CA Amit Vinay Chaturvedi for his role

as the EQCR Partner in the audit of DHFL. DHFL is a company listed on both Bombay Stock Exchange and National Stock Exchange (BSE & NSE, hereafter), and was one of India's leading housing finance companies. The DHFL group consisted of around³ 250 branches, three wholly owned subsidiaries, associates and joint ventures as on 31st March 2018, and was primarily engaged in the housing finance, life insurance and financial services sector. As per its books of account, the group's revenue from operations was around ₹10,515 crore and it had total assets of ₹1,07,627 crore and total external liabilities of ₹99,067 crore as on 31st March 2018, mainly from banks and financial institutions, debt market instruments and public deposits. It reported a profit of ₹1,166 crore (consolidated) and a profit of ₹1,172 crore (standalone) for the Financial Year (FY, hereafter) 2017-18. DHFL was required to prepare its Financial Statements for 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.

5. C&S was the Statutory Auditor of DHFL for FY 2017-18 and CA Jignesh Mehta was the EP for this audit. CA Amit Vinay Chaturvedi, Partner of M/s Chaturvedi & Shah LLP, was the EQCR of this Audit engagement.
6. In January 2019, some media reports alleged siphoning of around ₹31000 crore in public money by DHFL promoters. NFRA, pursuant to the duty cast upon it under Section 132 (2) (b) of the Companies Act, 2013 (the Act, hereafter) and the NFRA Rules, 2018, took up the Audit Quality Review (AQR, hereafter) of the statutory audit (the Engagement, hereafter) of DHFL for the FY 2017-18 carried out by C&S. As part of the AQR process, vide NFRA letter dated 22nd February 2019, the Audit File and Audit Report signed by the EP, CA Jignesh Mehta, in respect of the Engagement was called for from the Audit Firm. The Audit Firm submitted the said Audit File on 27th February 2019.
7. While the AQR was in progress, we observed several instances where the audit had been carried out in violation of the applicable SAs, laws and regulations. However, C&S issued unmodified audit reports on the SFS and CFS of DHFL for the FY 2017-18 on 30th April 2018, certifying that these Financial Statements presented a true and fair view of the affairs of the Company.
8. After an extensive examination of the Audit File, we had reasons to believe that the violations by the EQCR Partner may amount to professional misconduct as conceived in Section 132 (4) of the Act, and thus a Show Cause Notice dated 29th September 2021 (the SCN, hereafter) was issued to the EQCR Partner. He was charged with professional misconduct of:
 - (a) failure to exercise due diligence, and being grossly negligent in the conduct of professional duties;
 - (b) failure to obtain sufficient information which is necessary for expression of an opinion or its exceptions are sufficiently material to negate the expression of an opinion; and
 - (c) failure to invite attention to any material departure from the generally accepted procedures to audit applicable to the circumstances.

³ As provided in the annual report for FY 2017-18.

C. PRELIMINARY LEGAL MATTERS

9. The EQCR Partner has raised objections with regard to the powers and jurisdiction of NFRA under the Act and the process followed by NFRA during this proceeding.
10. The Audit Firm and the EQCR Partner had filed writ petitions, WP (C) 5326/2022 and 119/2022, in the Hon'ble Bombay High Court challenging NFRA's jurisdiction to issue the SCNs. The Hon'ble High Court vide its order dated 13th June 2023 disposed of Writ Petition 1399 OF 2023 along with Writ Petition No. 5326 OF 2022/ Writ Petition No. 119 Of 2022/ Writ Petition No. 5323 Of 2022 and instructed NFRA to decide its own jurisdiction. The relevant extracts of the Bombay High Court order dated 13.06.2023 are as follows: *“It appears to us logical that the issue of jurisdiction will be decided first because if the NFRA ultimately holds that it does not have jurisdiction, then obviously further decisions will be neither permissible nor necessary. If the NFRA on the other hand holds that it has jurisdiction, then it cannot be expected to stop at that. It must then proceed to decide all other issues and return final findings... We take the liberty of issuing a direction identical to that which we would have issued at the hearing on the jurisdiction being before us rather than the Authority. The direction is that all Petitioners must coordinate between themselves to present their arguments on one day together on the jurisdictional issue. It seems to us unworkable to expect the Authority to hear the same argument on jurisdiction repeatedly. How the submissions are to be divided between the parties and their counsel is a matter left to them but the scheduling by the Authority should ideally be in such a way that the jurisdictional point is on one day when all counsel for all matters can be heard. Thereafter a different schedule can be set for the facts for the individual cases that follow thereafter, if necessary, i.e., if the authority finds that it does have jurisdiction.... We clarify that we do not expect the order on jurisdiction to be passed first unless the Authority finds in favour of the present Petitioners in which case it will be the only order to be passed”.*
11. Against the Order dated 13.06.2023 of the Hon'ble Bombay High Court, the EQCR Partner approached the Hon'ble Supreme Court vide SLP No. 13201-13202/ 2023. The Hon'ble Apex Court, vide its order dated 10.07.2023, upheld the decision of the Hon'ble Bombay High Court and dismissed the Special Leave Petition.
12. In compliance with the above order of the Hon'ble Bombay High Court, an oral hearing before the Executive Body (EB) of NFRA was scheduled on 11.07.2023 to decide the jurisdiction of NFRA. The EQCR Partner, along with the EP, availed of the opportunity along with his legal counsel and also submitted a written summary of submissions vide email dated 17.07.2023. We have examined these submissions in detail and found that NFRA has required jurisdiction under Section 132(4)(c) of the Companies Act, 2013, as discussed in paragraphs 13 to 22 below.

Jurisdiction of NFRA

13. 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, did not alter the Auditor's liability to fully comply with the Standards and the law as it existed before the formation of NFRA.

14. Section 132 (4) of the Companies Act gives exclusive jurisdiction to NFRA in matters of professional or other misconduct of Auditors of entities that fall within the jurisdiction of NFRA, which is evident from the following:
- a. 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”.
 - b. 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”.
15. A plain reading of the law would disclose that Section 132 (4) (a) confers upon the NFRA the power to investigate the matters of professional or other **misconduct committed** by any member or firm of Chartered Accountants registered under the Chartered Accountants Act, 1949 in such manner as may be prescribed.
16. The proviso to Section 132 (4) (a) creates a bar on any other institute to initiate or continue any proceedings where the NFRA has initiated an investigation under this Section. This clearly implies that even for matters of professional or other misconduct committed prior to the coming into force of Section 132 (4), NFRA can initiate an investigation, which would disentitle any other institute, such as the ICAI, from continuing their proceedings in such matters of misconduct. The expression “such matters of misconduct” and “misconduct committed” would clearly mean misconduct which has been committed prior to 24.10.2018 i.e. the date of coming into force of Section 132 (4) and qua which proceedings were already underway by the ICAI and with effect from 24.10.2018, the said proceeding would be in the exclusive domain of NFRA.
17. Section 132 (4) (a) itself speaks of “matters of professional or other misconduct committed by any member or firm of Chartered Accountants, registered under the Chartered Accountants Act, 1949”. So obviously, the Authority has jurisdiction over misconduct committed in the past as well.
18. It is a well-settled law that retrospective applicability can either be expressly provided for or can be inferred by necessary implications from the language employed. The Hon’ble Supreme Court in the case of Zile Singh v. State of Haryana, (2004) 8 SCC 1 at Para 15, held, “*It is not necessary that an express provision be made to make a statute retrospective and the presumption against retrospectivity may be rebutted by necessary implication especially in a case where the new law is made to cure an acknowledged evil for the benefit of the community as a whole (ibid., p.440). This can be achieved by express enactment or by necessary implication from the language employed. If it is a necessary implication from the language employed that the legislature intended a particular section to have a retrospective operation, the courts will give it such an operation. In the absence of a retrospective operation having been expressly given, the courts may be called upon to construe the provisions and answer the question whether the legislature had sufficiently expressed that intention giving the statute retrospectivity. Four factors are suggested as relevant: (1) general scope and purview of the statute; (ii) the remedy sought to be applied; (iii) the former state of the law, and (iv) what it was the legislature contemplated. (p.388).*” In the instant case the language used, viz, “other misconduct committed” clearly implies

jurisdiction over past conduct ie before t24.10.2018, the day when the said section came into force.

19. Further, the presumption against retrospective applicability arises when a vested right is sought to be impaired. The explanation to Section 132 (4) would clearly reveal that the subject matter of investigation and penalty under this provision is “professional or other misconduct” having the same meaning assigned under Section 22 of the Chartered Accountants Act, 1949. No Chartered Accountant can claim to have a vested right to commit professional or other misconduct, which was already prohibited and illegal and subject to disciplinary action under a different regulatory statute, namely, the Chartered Accountants Act, 1949.
20. As explained above, compliance with the Standards of Auditing was mandatory, and its non-compliance was punishable even before the establishment of NFRA, hence no new obligation or offence has been created on the Auditors. Section 132 (4) designates NFRA as the forum for determination of professional misconduct. The setting up of NFRA does not impose any new duties or obligations on Auditors, rather NFRA only evaluates their professional work in accordance with the Standards on Auditing and statutory requirements prevailing at the time of the audit. Therefore, there is no bar on NFRA’s jurisdiction over the cases of professional or other misconduct committed prior to the establishment of NFRA because the exercise of retrospective jurisdiction, in this case, is only with regard to procedure and forum and is creating any new offence.
21. Given this backdrop and specific wordings of Section 132 and Rule 10 quoted above, it is clear that NFRA has the sole and exclusive jurisdiction to initiate proceedings in cases of professional misconduct committed in earlier years too or else it would lead to an anomalous situation of a **regulatory gap** where any misconduct committed before the formation of NFRA will go unpunished. The law enabling investigation into professional and other misconduct, being in existence in the period before 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 before 2018 does not stand.
22. Thus, NFRA has the requisite jurisdiction to monitor compliance with Accounting standards, monitor and enforce compliance with the SAs and to investigate matters of professional misconduct of Chartered Accountants falling under the NFRA domain.

D. MAJOR LAPSES IN THE AUDIT

23. Vide letter dated 28.07.2023, the EQCR Partner was informed about NFRA's decision on the issue of jurisdiction and he was requested to submit his reply to the SCN. The EQCR Partner approached Hon'ble NCLAT vide Comp. App. (AT) No. 167 of 2023 wherein he raised the issue of non-supply of reasons for arriving at the issue of jurisdiction. The appeal was dismissed as withdrawn vide NCLAT order dated 05.09.2023.
24. The EQCR Partner was required to submit his reply to the SCNs on or before 1st November 2021. After availing multiple extensions of time the EQCR Partner submitted his reply to the SCN, vide letter dated 06.09.2023, and requested an opportunity for a personal hearing. The EQCR Partner was granted the opportunity of a personal hearing along with his legal representative on 05-10-2023. However, on request from the EQCR Partner, the hearing was rescheduled to 12.10.2023. The EQCR Partner requested an adjournment of the hearing

again and it was then rescheduled to 19.10.2023. The EQCR Partner again requested for adjournment and he was informed that he should avail of the hearing on 19.10.2023 itself. The EQCR Partner was repeatedly informed that if he fails to appear, the matter will be decided on merits based on available records and his written reply to the SCN. The EQCR Partner did not attend the oral hearing. Thus, after giving multiple opportunities as mentioned above, we proceeded in the matter on merits, based on material available on record and the detailed written reply to the SCN submitted by the EQCR Partner.

25. The major changes in the SCN included failure to discharge professional duties in accordance with SA 220⁴, SA 230⁵ and SQC 1⁶, failure to demonstrate the basis for conclusions reached by him in his capacity as the EQC Reviewer and failure to demonstrate achievement of overall objectives of the Audit. The charges and their responses are examined in detail in the subsequent paragraphs.
26. The EQCR Partner was charged with failure to exercise due diligence, gross negligence in the conduct of his professional duties and failure to document and report material departures from SAs due to the absence of documented evidence to demonstrate the basis for conclusions reached by him in his capacity as the EQC Reviewer and failure to demonstrate achievement of overall objectives of the Audit. The charge was based on the various non-compliances with SA 220, 230 and SQC-1, listed in the SCN, as evidenced by the Audit Documentation.
27. The EQCR Partner denied all the charges. He submitted that he had visited DHFL premises to review the selected Workpapers (WP), discussed with the ET, reviewed documents and signed the EQCR Checklist. He stated that SA 220 and SQC-1 are the only auditing standards applicable to his work and that his work complies with the requirements therein. Documentation requirements of SA 230 apply only to “auditors”, not to EQCR Partner. He stated that the objective review can be achieved through checklists and yes/no boxes.
28. On examination of the replies and the audit file we observe that the contentions of the EQCR Partner have no basis in law. The only documented evidence of his work, admittedly, is a checklist⁷ giving yes/no answers to 10 predefined questions. We reject this as admissible evidence of compliance with the requirements of the EQC Review contained in SA 220 and SQC-1 for the following reasons.
 - a. Para 25 of SA 220 provides specific documentation requirements for EQCR. The checklist does not meet the specific documentation requirements of Para 25 (a) and (c) of SA 220 regarding the procedures required by the firm’s policies on EQCR and significant judgments made by the ET. There is no documentation of the procedures required by the Firm. There is no identification of the significant judgments made by the ET. The EQCR, being an evaluation of significant judgements by the ET, involves the identification of such significant matters at the first instance. No working papers evidence the significant matters noted by the EQCR Partner during the audit.
 - b. The Checklist was a general template used by the firm, not specific to the engagement. For instance, a branch audit, management’s assessment of going concern, ever-greening

⁴ SA 220, Quality Control for an Audit of Financial Statements

⁵ SA 230, Audit Documentation

⁶ SQC 1, Quality Control for Firms that Perform Audit and Reviews of Historical Financial Information, and other Assurance and Related Services Engagements

⁷ WP \27 Closing Documents\Audit Checklist\Engagement Quality Control Review.pdf.

of loans, and verification of materiality are all significant matters but find no place in the checklist. There is no evidence of involvement of EQCR Partner in the respective WPs as well.

- c. Para 65 of SQC-1 requires that an engagement quality control review for audits of financial statements of listed entities include significant risks identified during the engagement and the responses to those risks as well as judgments made. Thus, the EQCR partner was required to review the significant risks identified during the engagement and the responses to those risks. None of the WPs bears any evidence of identification and review of such risks by the EQCR Partner.
 - d. In point 5 of the checklist, in response to the question, whether “*Documentation with regard to the significance and disposition of corrected and uncorrected misstatements identified during the engagement has been done?*”, the EQCR Partner selected “Yes”. But no ‘corrected and uncorrected misstatement/summary of audit differences’ has been noticed by the ET.
 - e. In point 6 of the checklist, “Yes” is marked against the question “*Were there any matters that were to be communicated to management and those charged with governance and, where applicable, other parties such as regulatory bodies?*”. However, there is no evidence of any effective two-way communication with TCWG in the Audit File.
 - f. The EQCR Partner, in his reply, has claimed to have reviewed multiple audit work papers but there is not a single work paper in the Audit File where the EQCR Partner has, at least even signed, to evidence a reading of the WP. There are no WPs cross-referenced in the checklist as well.
 - g. The word “documented” cannot be interpreted to mean a standard checklist that has been simply ticked by the EQCR partner without even a reference to the work papers. The absence of documentation and the absence of any other persuasive evidence is conclusive proof that the required EQCR procedures had not been performed.
 - h. The casual nature of the purported EQC Review is evidenced by the above instances noticed from the Audit File, for which no satisfactory reply backed by evidence from the audit file, has been provided by the EQCR Partner.
29. The documentation requirement in Para 25 of SA 220 is specific to SA 220. Nowhere in the SAs or SQC 1 it has been stated that the documentation requirements of Para 73 of SQC 1 and Para 25 of SA 220 (both the requirements are similar) are the ONLY documentation requirement the EQC Reviewer shall follow. SA 230 explicitly states in para 1 that the specific documentation requirements of other SAs do not limit the application of SA 230. As per SA 230, Audit documentation serves several purposes including evidence that the audit is planned and performed in accordance with the SAs. Therefore, performance by the EQCR Partner of the mandatory requirements of SA 220 shall be evidenced by documentation, adhering to the principles of SA 230, particularly Paras 8, 9 and 10. The mandatory requirements for EQCR are specified in paras 20 and 21 of SA 220. The key procedures specified include a discussion of significant judgments made by the ET, a review of Financial Statements and a review of selected audit documentation. Documentation of a mandatory procedure in an SA is a compulsory requirement of SA 230 and it forms the base of any audit under the Companies Act, 2013 since SAs need to be

statutorily complied with. The argument that EQCR Partner is not part of ET or EQCR Partner is not an auditor does not vitiate this position since it is the statutory responsibility of the Auditor⁸ to comply with all the SAs including SA 220. Hence it is imperative that to meet the requirements of SA 220 and SQC 1, the documentation done by the EQCR Partner shall have to be in accordance with the requirements of SA 230 and SA 220. Documentation prepared as per SA 230 and specific documentation requirements of other SAs provide evidence that the audit is performed in accordance with SAs and the applicable legal and regulatory requirements (Para 2 of SA 230). Thus, specific documentation requirements of any SA alone cannot meet this requirement, since mandatory procedures are prescribed in all the SAs. SA 220 is no exception as far as EQCR Partner is concerned.

30. Para 20 of SA 220 mandatorily requires EQCR Partner to perform an objective evaluation of the significant judgments made by the engagement team, and the conclusions reached in formulating the auditor's report. The evaluation shall involve the following procedures:
- a. Discussion of significant matters with the engagement partner;
 - b. Review of the financial statements and the proposed auditor's report;
 - c. Review of selected audit documentation relating to the significant judgments made by the engagement team and the conclusions it reached; and
 - d. Evaluation of the conclusions reached in formulating the auditor's report and consideration of whether the proposed auditor's report is appropriate.

Similarly, para 21 of SA 220 lists down mandatory requirements for audits of financial statements of listed entities. Thus, the performance of a mandatory procedure should be evidenced through documentation. SA 230 is the general documentation standard and the documentation in such cases should be based on the principles laid down in SA 230.

31. As per SQC 1 and SA 220, EQCR is an objective evaluation of the significant judgements made by the ET, and the conclusions reached in formulating the auditor's report. It is not an audit of the financial statements. Hence, the basis of conclusions documented by the ET regarding various aspects of the audit alone cannot form the basis of conclusions by the EQCR Partner. He needs to apply his objective wisdom to ensure that the ET has complied with all the requirements applicable to the subject matter under review. Thus, the evaluation should be whether the audit procedures performed are appropriate, whether ET had obtained sufficient appropriate audit evidence and whether appropriate conclusions were reached and documented for those audit areas. While doing so, the matters discussed by the EQCR, the additional evidence or procedures required by the EQCR etc, shall form part of the documentation so that the work of the EQCR is evidenced and identifiable. Even when the EQCR Partner agrees with all significant matters documented by the ET, there is still a need to document the discussions.
32. Para 6 of SQC 1 defines "engagement quality control review" as a process designed to provide an objective evaluation, before the report is issued, of the significant judgments the ET made and the conclusions they reached in formulating the report. Thus, the process requires objective evaluation and separate work needs to be done for the evaluation of significant judgments and to verify the results. The absence of any evidence of the

⁸ As per Section 139 read with Section 141 and 143 (9) the Companies Act 2013.

involvement of the EQCR Partner as envisaged in SA 220 shows that the EQCR did not comply with the requirements of SQC 1 and SA 220.

33. The absence of objective evaluation is further evidenced by the following violations of the EP which were unquestioned by the EQCR Partner.
- a. C&S, in its Independent Auditor's Report to the members of DHFL, has, inter alia, stated that the reports on the accounts of the branch offices of the Company audited under Section 143 (8) of the Act by branch auditors have been properly dealt with by him in preparing the audit report. The audit report also stated that the audited financial statements incorporate the Returns for the branches audited by the branch auditors of the Company's branches/offices at 250 locations. However, there is no evidence in the Audit File to establish the existence of legal appointment of any branch auditor by the AGM of the Company and that C&S has carried out the audit of the entire company including all its 250 branches. The EQCR Partner failed to notice this violation.
 - b. C&S failed to discharge its statutory duty of completing the branch audits, which was the key requirement of the Act in the completion of the audit of the Company's Financial Statements for the year 2017-18. The EQCR Partner failed to notice this violation.
 - c. In FY 2016-17, DHFL incorporated a wholly owned subsidiary, DHFL Investments Limited by investing around ₹100 crore in equity share capital. On March 31, 2017, DHFL sold its entire stake in DHFL Pramerica Life Insurance Company Limited to DHFL Investments Limited at a fair market value of ₹2000.50 crore. This transaction added ₹1969.43 crore to DHFL's profits. The subsidiary funded the investment through the issue of Compulsorily Convertible Debentures (CCD) of ₹1901 crore to Wadhawan Global Capital Pvt. Ltd. (WGC), a promoter entity of the DHFL. WGC pledged these CCDs for borrowing around ₹1900 crore through debentures from external sources. Despite DHFL Investments Limited being a 100% subsidiary, DHFL did not consolidate the financial statements of the subsidiary. Had it been consolidated, the liabilities of DHFL would have been more by ₹1901 crore with a corresponding reduction in net worth. The EP did not report this material misstatement in the Consolidated Financial Statements. The EQCR Partner failed to point this out.
 - d. DHFL was regulated by the National Housing Bank (NHB) and hence bound to follow the relevant NHB Guidelines. The NHB inspection reports for FY 2016-17 flagged certain potential significant violations by DHFL. In this regard, the EP failed to document any evidence in the Audit File to show that there is no material misstatement in the financial statements due to non-compliance with laws and regulations having a direct effect on the disclosures in the financial statements. The EQCR Partner failed to review this significant matter.
 - e. The EP failed to obtain sufficient appropriate audit evidence regarding the entity's ability to continue as a going concern. The EP ignored clear indications/events that should have raised concerns over the entity's ability to continue as a going concern. The EP failed in the discharge of his professional duties by not challenging management's assessment of the applicability of the going concern assumption, by failing to test the adequacy of the supporting evidence, and by failing to evaluate the risk of management bias. The EQCR Partner failed to review this significant matter.
 - f. In the absence of adequate audit procedures in the identification, assessment and conclusions of Risk of Material Misstatement (RoMM) and documentation as required by Para 32 of SA 315⁹ and SA 230, the EP failed to appropriately identify, classify and

⁹ SA 315 Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment.

- assess the RoMM and consequently failed to contain the RoMM to an acceptably low level as required under various stipulations in SA 315 and SA 240. This has rendered the entire audit process unreliable. The EQCR Partner did not review this significant area of audit.
- g. The EP failed to identify the deficiencies in internal control relating to the appraisal and sanction of loans at the head office level and branch level. The EQCR Partner did not review this aspect.
 - h. The EP failed to obtain sufficient information which is necessary for the expression of an opinion on Internal Financial Controls over Financial Reporting (ICFR). He issued a baseless audit report on ICFR under Section 143(3)(i) of the Act, which the EQCR Partner failed to notice.
 - i. The EP failed to verify the Related Party Transactions (RPT) as required by the SAs, which the EQCR Partner did not notice.
34. Thus, the Audit Report issued by C&S was not appropriate. However, as the EQCR partner did not perform his duty as mandated by para 20 of SA 220, he failed to notice the above deficiencies.
35. Based on the above discussions, all the charges in para 26 regarding failure to exercise due diligence, gross negligence in the conduct of his professional duties, failure to perform and to document EQCR, and failure to report material departures from SAs stand proved.
36. We also observe that such lapses have been viewed seriously by international regulators as well. For example, PCAOB¹⁰, the US Regulator, charged Grant L. Hardy (CPA) for his failure in connection with his role as Engagement Quality Reviewer ('EQR' hereafter) in the audit of financial statements of some of the issuer clients and noted that "*Hardy violated PCAOB Auditing Standard No. 7, Engagement Quality Review ("AS 7") by providing his concurring approval of issuance without performing with due professional care the EQRs required by this standard for the Firm's audits of COPsync and Forever Green's December 31, 2010, financial statements and AEG's June 30, 2011, financial statements.*" For this misconduct, PCAOB censured the EQR, barring him from being an associated person of a registered public accounting firm for 1 year.
37. PCAOB¹¹ in the matter of Cheryl L. Gore, CPA and Stanley R. Langston, CPA, charged Stanley R. Langston (CPA) for his failure in connection with his role as Engagement Quality Reviewer in the audit of financial statements of some of the issuer clients and noted in its order dated 14.12.2021 that "*Langston violated AS 1220, Engagement Quality Review, by providing his concurring approval of issuance of the Firm's audit reports without performing the required engagement quality reviews with due professional care.*" For this misconduct, PCAOB imposed restrictions on Langston, barring him from being an "engagement partner" or EQC Reviewer for 1 year and also imposed a monetary penalty of \$10,000. Furthermore, in another case, PCAOB¹² found that Donald R. Burke, CPA, failed to evaluate properly the engagement team's assessment of, and audit responses to, significant risks identified by the engagement team, including fraud risks. As a result of his failure to perform Engagement Quality Reviews with due professional care, among other things, Donald R. Burke, CPA was suspended from being an associated person of a

¹⁰ PCAOB release no 105 2015 001 dated 12.01.2015

¹¹ PCAOB Release No. 105-2021-020 December 14, 2021

¹² PCAOB Release No. 105-2021-012 (Sept. 29, 2021)

registered public accounting firm for a period of one year and imposed a \$10,000 civil money penalty upon Burke.

E. Articles of Charges of Professional Misconduct

38. As discussed, the EQCR Partner did not perform his duties as per the Standards and the Law in conducting the Engagement Quality Control Review of the statutory audit of DHFL FY 2017-18. Based on the discussion and analysis, we conclude that the EQCR Partner has committed Professional Misconduct as defined in the Act, as below:

i. CA Amit Vinay Chaturvedi committed professional misconduct as defined by Section 132 (4) of the Companies Act, 2013, read with Section 22 and Clause 7 of Part I of the Second Schedule of the Chartered Accountants Act, 1949 (No. 38 of 1949) as amended from time to time, which states that a Chartered Accountant is guilty of professional misconduct when he “does not exercise due diligence or is grossly negligent in the conduct of his professional duties”.

This charge is proved, as the EQCR Partner failed to conduct the review in accordance with the SAs and applicable regulations. He failed to notice and document the serious omissions and commissions by the ET that led to the issue of a baseless audit report by the EP, as explained in paras 28 to 35 above.

ii. CA Amit Vinay Chaturvedi committed professional misconduct as defined by Section 132 (4) of the Companies Act, 2013, read with Section 22 and Clause 8 of Part I of the Second Schedule of the Chartered Accountants Act, 1949 (No. 38 of 1949) as amended from time to time, which states that a Chartered Accountant is guilty of professional misconduct when he “fails 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”

This charge is proved, as the EQCR Partner failed to conduct the review in accordance with the SAs and applicable regulations. He failed to notice and document the serious omissions and commissions by the ET that led to the issue of a baseless audit report by the EP, as explained in paras 28 to 35 above

iii. CA Amit Vinay Chaturvedi committed professional misconduct as defined by Section 132 (4) of the Companies Act, 2013, read with Section 22 and Clause 9 of Part I of the Second Schedule of the Chartered Accountants Act, 1949 (No. 38 of 1949) as amended from time to time, which states that a Chartered Accountant is guilty of professional misconduct when he “fails to invite attention to any material departure from the generally accepted procedure of audit applicable to the circumstances”.

This charge is proved since the EQCR Partner failed to conduct the review in accordance with the SA 220 and SQC-1 as explained in Paras 28 to 35 above but falsely certified that he had performed the review as per SAs.

39. Therefore, we conclude that the charges of professional misconduct in the SCN, as detailed above, stand proved based on the evidence in the Audit File, the audit reports on the standalone financial statements and consolidated financial statements for the FY 2017-18 and the submissions made by the EQCR Partner.

F. SANCTIONS AND PENALTIES

40. Section 132 (4) of the Companies Act, 2013 provides for penalties in a case where professional misconduct is proved. The seriousness with which proved cases of professional misconduct are viewed is evident from the fact that a minimum punishment is laid down by the law.
41. An EQC Reviewer must conduct a review of the work of the ET and ensure that the Independent Auditor's Report is appropriate. As per the statute, the EQC Reviewer is an additional layer provided to ensure quality during the conduct of the Audit, and this objective is defeated if the EQC Reviewer performs in a perfunctory manner.
42. Independent Auditors of publicly listed companies serve a critical public function of enabling the users of audited Financial Statements to make informed decisions. Statutory audits provide useful information to the stakeholders and public based on which they make decisions on their investments or do transactions with the public interest entity¹³.
43. Absent a robust system of auditing, investors, creditors and other users of Financial Statements would be handicapped and their work compromised. The entire corporate governance system would fail and result in a breakdown in the trust and confidence of investors and the public at large if the auditors do not perform their job with professional skepticism and due diligence and adhere to the standards. An engagement quality control review provides an objective evaluation of the significant judgments made by the engagement team and the conclusions reached in formulating the report. Such an objective review, if conducted strictly in accordance with the SAs, enhances the quality of the audit.
44. The EQCR Partner in this case failed to provide, as required by SAs, an objective evaluation of the significant judgements made by the ET and the conclusions reached by them in formulating the report. This order has listed out the lapses of the ET, right from relying on the work of illegally appointed branch auditors to, failure to report material misstatements in the CFS, failure to examine non-compliance with NHB Directions, failure to verify internal financial controls, failure to assess the risk of material misstatements, failure to evaluate the going concern assumption, failure to verify the Related Party Transactions, failure to consider suspected violations of laws and regulations. However, the EQCR Partner turned a blind eye to such lapses. The fact that there was no proper audit of branches of the Company alone renders the audit invalid and underlines the absence of objectivity of EQCR. Such an Audit engagement having no evidence in the form of questioning, evaluation, discussion or review of the ET by the EQCR in critical areas of the audit, is alarming. Despite being a qualified professional, CA Amit Vinay Chaturvedi has not adhered to the Standards, and has thus, not discharged the duty cast upon him.
45. The professional misconduct has been detailed and proven on various counts in the body of this Order. Considering the nature and seriousness of violations and principles of proportionality, we, in the exercise of powers under Section 132 (4) (c) of the Companies Act, 2013, order the sanctions detailed below. In light of the judgment of the Hon'ble National Company Law Appellate Tribunal (NCLAT) dated 01.12.2023,¹⁴ we have limited the monetary penalty to ₹5 Lakh only since the violations relate to FY 2017-18.

¹³ Public interest entity as defined in Rule 3 of NFRA Rules 2018

¹⁴ Order in the matter of Comp. App. (AT) No. 68, 87,90 &91 of 2023, Judgment dated 01.12.2023, page 92, that states regarding retrospective jurisdiction of NFRA, that "We also take into consideration the fact that neither any new misconduct has been created in law, which NFRA can investigate and levy penalty, if required nor NFRA can levy penalty greater than the quantum of penalty envisaged under the Chartered Accountants Act, 1949."

- (i) Imposition of a monetary penalty of **Rupees Five Lakh** upon CA Amit Vinay Chaturvedi.
- (ii) In addition, CA Amit Vinay Chaturvedi is debarred for **Five years** from being appointed as an auditor or internal auditor or from undertaking any audit in respect of financial statements or internal audit of the functions and activities of any company or body corporate.

46. This order will become effective after 30 days from the date of issue of this order.

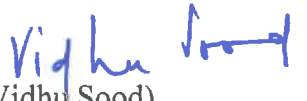
Sd/-
(Dr. Ajay Bhushan Prasad Pandey)
Chairperson

Sd/-
(Praveen Kumar Tiwari)
Full-Time Member

Sd/-
(Smita Jhingran)
Full-Time Member

Authorised for issue by the National Financial Reporting Authority.

Date: 05.12.2023
Place: New Delhi


(Vidhu Sood)
Secretary

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

To,
CA Amit Vinay Chaturvedi,
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Copy to:

- (i) Secretary, Ministry of Corporate Affairs, Government of India, New Delhi.
- (ii) Secretary, Institute of Chartered Accountants of India, New Delhi.
- (iii) Reserve Bank of India.

- (iv) Securities and Exchange Board of India.
- (v) Piramal Housing Finance Limited, Mumbai
- (vi) National Housing Bank
- (vii) IT-Team, NFRA for uploading the order on the website of NFRA.