

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

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

Order No. 013/2024

Date: 26.04.2024

**ORDER**

**In the matter of M/s Krishna Neeraj & Associates and CA Krishna Kr Neeraj under Section 132(4) of the Companies Act 2013 read with Rule 11(6) of National Financial Reporting Authority 2018**

1. This Order disposes of the Show Cause Notice ('SCN' hereafter) No. NF-23/1/2023 dated 04 December 2023, issued to M/s Krishna Neeraj & Associates ('Firm hereafter') and CA Krishna Kr Neeraj (ICAI Membership No. 506669), partner of M/s Krishna Neeraj & Associates (ICAI Firm Registration No. 023233N), Delhi, (both are collectively called as 'Auditors' hereafter), who is a member of the Institute of Chartered Accountants of India ('ICAI' hereafter) and was the Engagement Partner ('EP' hereafter) for the statutory audit of CMI Limited ('CMIL' or 'the company' hereafter) for the Financial Years ('FY' hereafter) 2019-2020, 2020-21 and 2021-22.
2. This Order is divided into the following sections:
  - A. Executive Summary
  - B. Introduction & Background
  - C. Lapses in the Audit
  - D. Specific Lapses of the Audit Firm
  - E. Articles of Charges of Professional Misconduct by the Auditor
  - F. Penalty & Sanctions
- A. Executive Summary**
3. National Financial Reporting Authority (NFRA) is India's independent regulator, in respect of matters relating to accounting and auditing, of prescribed classes<sup>1</sup> of entities broadly described as 'Public Interest Entities' (PIEs).
4. NFRA initiated action under section 132 (4) of Companies Act 2013 ('CA-2013' or 'Act' hereafter) against the Auditors of CMIL for professional or other misconduct in relation to CMIL's statutory audit for FY 2019-2020, 2020-21 and 2021-22, pursuant to information received from Securities and Exchange Board of India (SEBI hereafter) indicating the failure of statutory auditors in the audit of inventory management.
5. This Order finds that the auditors failed to meet the relevant requirements of the Standards on Auditing ('SA' hereafter) in respect of several significant areas, reflecting gross negligence and lack of due diligence to perform audit of a Public Interest Entity (PIE). These include:

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<sup>1</sup> Rule 3 of NFRA Rules, 2018

- a. The auditors failed to report the non-recognition as liabilities of the interest accrued on loans classified as Non-Performing Assets (NPAs) which is a “misstatement” as per Para 13(i) of SA 200 and which had resulted in understatement of the interest cost, current liabilities, and the reported loss by the company. **(Para C.1).**
  - b. The auditors failed to analyse the going concern assumption despite the fact that CMIL had continuous declining trend in the Revenue from ₹ 637.30 crores in FY 2018-19 to ₹ 498.29 cores in 2019-20 and ₹ 201.70 cores in 2020-21; continuous declining trend in the Profit After Tax (PAT) from ₹45.08 crores in FY 2018-19 to ₹ 3.70 cores in 2019-20 and (-) ₹ 194.60 cores in 2020-21; and continuous declining trend in Net Worth from ₹ 305.97 crores in FY 2018-19 to ₹ 306.62 crores in 2019-20 and ₹ 117.12 crores in 2020-21**(Para C.2).**
  - c. The auditors failed to demonstrate sufficiency and appropriateness of audit work in several critical aspects of the audit of the Financial Statements i.e., determining materiality, evaluation of the going concern assumption, verification of inventories and trade receivables, verification of reported revenue and evaluating the audit results **(Para C.4).**
  - d. The auditors failed to perform physical verification or alternative audit procedure to determine the existence and condition of inventory amounting to ₹ 187.67 crores, ₹ 154.47 crores and ₹ 36.67 crores in FY 2019-2020, 2020-21 and 2021-22 respectively **(Para C.5).**
  - e. The auditors failed to demonstrate compliance with the requirement of the Standards on Auditing concerning the Engagement Quality Control Reviewer **(Para C.7).**
  - f. Similarly, the auditors failed to determine materiality **(Para C.8)**; and failed to communicate with Those Charged with Governance (TCWG). **(Para C.10)**
  - g. The auditors failed to carry out external confirmation for Trade Receivables or any other alternative audit procedure to verify the audit assertions relating to Trade Receivables amounting to ₹ 231.34 crores, ₹ 135.29 crores, and ₹ 110.64 crores in FY 2019-2020, 2020-21 and 2021-22 respectively **(Para C.9).**
6. Based on the investigation and proceedings under Section 132 (4) of the Companies Act and after giving the Auditors adequate opportunity including personal hearing to present their case, we find the Audit Firm and the Engagement 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:
- i. Monetary penalty of ₹ 50,00,000/- (Rupees Fifty Lakhs) upon the Audit firm, M/s Krishna Neeraj & Associates.
  - ii. Monetary penalty of ₹ 10,00,000/- (Rupees Ten Lakhs) upon CA Krishna Kr Neeraj.
  - iii. CA Krishna Kr Neeraj is also debarred for 2 (Two) years from being appointed as an auditor or internal auditor or from undertaking any audit in respect of financial statements or internal audit of the functions and activities of any company or body corporate.

## **B. Introduction & Background**

7. The National Financial Reporting Authority is a statutory authority set up under section 132 of the Companies Act 2013 to monitor implementation and enforce compliance of the auditing and accounting standards and to oversee the quality of service of the professions associated with ensuring compliance with such standards.

8. The statutory auditors, both individuals and firms, are appointed by the members of companies under Section 139 of the Companies Act. The statutory auditors, including the Engagement Partners (EP), the Engagement Team and Review Partners 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) of the Act.
9. CMI Limited, a public company incorporated on 22.06.1967, is engaged in designing and manufacturing of electrical Wires, Cables and Conductors. CMIL is listed on Bombay Stock Exchange and National Stock Exchange and therefore comes under the purview of NFRA by virtue of Rule 3 (1)(a) of NFRA Rules, 2018. The Company has two manufacturing facilities one at Faridabad, Haryana and another at Baddi, Himachal Pradesh.
10. SEBI vide letter dated 03.01.2023 informed NFRA that its preliminary analysis of the financial statements of CMI Limited for FY 2020-21 and FY 2021-22 highlighted internal control weakness in inventory management by CMI Limited, which has led to difference in physical and book stock.
11. Pursuant to the same, NFRA considered the case under Section 132(4) of the Companies Act, 2013 to assess whether any professional misconduct was committed by CA Krishna Kr Neeraj, in his role as the Engagement Partner (EP) and the Audit Firm, M/s Krishna Neeraj & Associates, in the Statutory audit engagement of CMI Limited for the FY 2019-2020, 2020-21 and 2021-22.
12. The Audit Files for FY 2019-2020, 2020-21 and 2021-22 were called from the Auditors vide letter dated 27.06.2023. As the Auditors failed to reply and submit the Audit Files by the stipulated date i.e. 12.07.2023, NFRA suo motu granted extension of time till 27.07.2023. The Auditors again failed to submit the Audit Files and NFRA again granted extension of time till 04.08.2023. The Auditors finally submitted the Audit Files on 10.08.2023.
13. On examination of the Audit Files and other relevant material available on record, and on being satisfied that sufficient cause existed to take action under sub-section (4) of Section 132 of the Companies Act, a Show Cause Notice (SCN hereafter) was issued to the Audit Firm M/s K Krishna Neeraj & Associates and the Engagement Partner (EP) CA Krishna Kr Neeraj (collectively referred to as Auditors in this Order) on 04.12.2023 asking them to show cause by 04.01.2024 why action should not be taken for professional misconduct in respect of their performance as the Statutory Auditors of CMIL for the FYs 2019-2020, 2020-2021 and 2021-2022. The grounds for the SCN were as follows:
  - a. Failure to disclose a material fact known to them which is not disclosed in a financial statement, but disclosure of which is necessary in making such financial statement where the Chartered Accountant (CA hereafter) is concerned with that financial statement in a professional capacity.
  - b. Failure to report a material misstatement known to them to appear in a financial statement with which the CA is concerned in a professional capacity.
  - c. Failure to exercise due diligence and being grossly negligent in the conduct of professional duties.

- d. Failure to obtain sufficient information which is necessary for expression of an opinion, or its exceptions are sufficiently material to negate the expression of an opinion.
  - e. Failure to invite attention to material departure from the generally accepted procedures of audit applicable to the circumstances.
14. Vide email dated 20.12.2023, the auditors requested for an extension of time till 15.02.2024 for giving reply to the SCN. The auditors were granted extension of time till 31.01.2024. The auditors submitted the reply vide email dated 31.01.2024 and refuted all the charges, and also requested for a personal hearing.
  15. Vide email dated 08.03.2024, the auditors were granted personal hearing to be held on 22.03.2024. Vide their e-mail dated 12.03.2024, the auditors requested for extending the personal hearing date to April 2024. An extension was granted, and the personal hearing held on 09.04.2024 wherein CA Krishna Kr Neeraj appeared on his own behalf as EP as well as on behalf of the Firm and made his brief submissions.
  16. We have perused all the material on record including the written responses of the Auditors. The major lapses include non-reporting of non-recognition of liabilities classified as Non-Performing Assets (NPAs) by CMIL, non-evaluation of reported revenue, non-assessment of going concern basis, non-evaluation / verification inventory and trade receivables, non-appointment of EQCR, non-determination of materiality and insufficient documentation in audit file. These have been discussed in Part 'C' of this Order. Part 'D' deals with the specific lapses of the Audit Firm.

### **C. Lapses in the Audit**

#### **C.1 Failure related to non-recognition of liabilities classified as Non-Performing Assets (NPAs) by the Lender Banks**

17. The auditors were charged with failure to report in their audit report the material misstatement due to not accounting by CMIL of the liabilities towards banks/financial institutions after the liabilities became NPA in the banks books.
18. Total borrowings of CMIL (principal and interest) in the FY 2021-22 classified as NPAs as per Companies Auditing and Reporting Requirements Order (CARO) were ₹ 408.63 crores <sup>2</sup>. However, the company had not accounted for these liabilities towards banks/financial institutions even after their becoming NPA, which was not in conformity with Ind AS 109<sup>3</sup> and therefore is a "Misstatement" as per SA 200. The SCN charged the auditors merely presented the matter as EoM instead of modifying their opinion in accordance with SA 705.
19. The auditors submitted that they had qualified their opinion by stating that "*The company's loans have been declared by the Banks/ Financial Institution as Non-Performing Assets*". Further the auditors submitted that "*In addition to this qualified opinion, we had mentioned non-recognition of liability on Non-performing Assets under*

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<sup>2</sup> Point 8 of CARO for FY 2021-22

<sup>3</sup> IND AS 109: Financial Instruments

*Emphasis of Matter. We have mentioned the matter under qualified opinion as well as mentioned under Emphasis on Matter (EOM} both.”*

20. We find that for the following reasons, the reply and explanation given by the auditors are misleading and an afterthought:
- i. In their audit report for the FY 2021-22, the auditors qualified their opinion on the basis of going concern of CMIL and not on the basis of non-recognition of liability on Non-performing Assets, which was only referred to while qualifying the opinion on the basis of going concern.
  - ii. Non-recognition of the liabilities towards banks/financial institutions even after they declared NPAs is not in conformity with Para 3.3.1 and Para 4.2.1 read with Para B5.4.1 of Ind AS 109. This is a “Misstatement” as per Para 13(i) of SA 200 resulting in understatement of the interest cost, current liabilities, and the reported loss by the Company. The auditors were required to qualify the amount of mis-statement and duly modify the opinion in accordance with SA 705. Merely presenting the matter as EoM was in violation of SA 705.
  - iii. Para 8 of SA 706<sup>4</sup> states that the auditor shall include an EoM paragraph in the auditor’s report, provided the auditor would not be required to modify the opinion in accordance with SA 705 as a result of the matter. Therefore, inclusion in the EoM of a matter that would have required consideration for modifying the audit opinion was a violation of SA 706.

21. In light of the foregoing, we find the reply of the auditors as an afterthought and as an evidence of their lack of knowledge and understanding. The auditors displayed gross negligence and lack of due diligence in discharging their duties by not reporting this material misstatement in their audit report, in violation of SA 705 and SA 706.

## **C.2 Failure to evaluate the management’s assessment of the entity’s ability to continue as a Going Concern**

22. The auditors were charged with noncompliance of SA 570<sup>5</sup>, which deals with auditor’s responsibilities in the audit of Financial Statements relating to ‘Going Concern’.
23. During the FY 2020-21, there were several indicators which when considered individually and in aggregate, could raise serious doubts about the ‘Going Concern’ assumption and, therefore, required the auditors to evaluate management’s assessment of the entity’s ability to continue as a going concern. These were as follows:
- a. A continuous declining trend in the Revenue from operations of CMIL from ₹ 637.30 crores in FY 2018-19 to ₹ 498.29 crores in 2019-20 and ₹ 201.70 crores in 2020-21.
  - b. A continuous declining trend in the Profit After Tax (PAT) of CMIL from ₹45.08 crores in FY 2018-19 to ₹ 3.70 crores in 2019-20 and (-) ₹ 194.60 crores in 2020-21.
  - c. A continuous declining trend in Net Worth of CMIL from ₹ 305.97 crores in FY 2018-19 to ₹ 306.62 crores in 2019-20 and ₹ 117.12 crores in 2020-21.

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<sup>4</sup> SA 706: Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report

<sup>5</sup> SA 570: Going Concern

- d. A continuous declining trend in the book value per share of CMIL from ₹ 208.52 in FY 2018-19 to ₹ 208.95 in 2019-20 and ₹ 77.71 in 2020-21.
- e. Negative working capital i.e. (-) ₹ 22.42 crores in FY 2020-21.
24. Despite the presence of the above mentioned indicators, raising questions about the going concern assumption in preparation of Financial Statements for the FY 2020-21, no evidence was found in the Audit File of the management's assessment of the entity's ability to continue as a going concern; nor was any evaluation conducted by the auditor of such assumption as required by Para 7 and Para 12 read with Para A7 and A9 of SA 570.
25. In response to the SCN, the auditors submitted that they had noticed the decline in turnover of CMIL with negative PAT and asked management's perspective for preparation of financial statements for the FY 2020-21 under going concern approach. CMIL replied along with supporting documents, which were considered by the auditors to understand the reasonableness of the going concern assumption for preparation of financial statements by CMIL. The auditors also submitted that they had obtained and analysed evidence in support of the going concern approach and keeping in mind the industry scenarios during Covid-19 pandemic and the declining but positive PAT, they had accepted the contention of the management to prepare the financial statements of CMIL for FY 2020-21 under going concern approach.
26. We have considered the reply of the auditors and other relevant material on record and find that:
- a) The contention of the auditors that they had considered the replies and the supporting documents submitted by the management is unacceptable as there is no evidence of the auditor's communication with management, and the reply and the supporting documents submitted by the management in the Audit File.
- b) The documents submitted by the auditors in their reply to the SCN, though liable to be rejected as they are not part of Audit File, is a management letter justifying the use of going concern assumption based upon probable tenders and proposed restructuring of loans from banks, the negative impact of Covid-19 pandemic etc. There is no evidence to show that the auditors evaluated the appropriateness of the use of Going Concern basis of Management. There is no evidence that the auditors performed additional audit procedures like analysis of the cash flows for the next 12 months to determine whether or not a material uncertainty existed relating to the events or conditions that could cast significant doubt on CMIL's ability to continue as a Going Concern.
27. Para A3 of SA 570 is an illustrative list of events/conditions that cast doubt on the ability of an entity to continue as a Going Concern. These indicators include negative operating cash flows indicated by Financial Statements, adverse key financial ratios, substantial operating losses, inability to comply with the terms of loan agreements etc. It is pertinent to note that all such indicators were present during the FY 2021-22 and therefore, the auditors were duty bound to obtain evidence in support of the use of going concern basis and had to evaluate the same to conclude if any material uncertainty existed regarding the Going Concern. However, as explained above, the Audit File contained no evidence of any such evaluation/testing of appropriateness of the Going Concern basis by the auditors.

We, therefore, find that the auditors were grossly negligent in performing their duty in

accordance with SA 570.

28. Such lapses have been viewed seriously by international regulators as well. For example, the Public Company Accounting Oversight Board<sup>6</sup> ('PCAOB' hereafter), the US Regulator, charged Bravos & Associates CPA's ("Firm") and Thomas W. Bravos, CPA ("Bravos") in connection with audit of UAHC for FYE June 30, 2013, where Bravos authorized issuance of the Firm's unqualified audit report, which included going concern explanatory language regarding those Financial Statements. However, Respondents did not have a reasonable basis for making these statements and issuing their audit report". For misconduct including this and others, PCAOB censured the firm by revoking its registration and imposed a civil monetary penalty of \$ 10000 on the firm. Bravos was barred from being an associated person of a registered public accounting firm.

### C.3 Failure relating to Revenue Recognition

29. The auditors were charged for failure to plan and perform audit with professional skepticism in accordance with the requirements of SA 200, failure to identify and assess the Risk of Material Misstatement ('ROMM' hereafter), due to fraud or otherwise in accordance with the requirements of SA 240<sup>7</sup> and SA 315.
30. Para 26 of SA 240 specifically states that "*when identifying and assessing the ROMM due to fraud, the auditor, based on a presumption that there are risks of fraud in revenue recognition, shall evaluate which types of revenue, revenue transactions or assertions give rise to such risk*". Para 47 of SA 240 states that when the auditor has concluded that the presumption that there is a risk of material misstatement due to fraud related to revenue recognition is not applicable in the circumstances of the engagement, the auditor shall document the reasons for that conclusion.
31. In their written reply, the auditors stated that verification of revenue was done by verification of GST returns and reconciliation of turnover with books of accounts, by verification of sales invoices with dispatch orders, using cut-off procedures to reach at the conclusion that the sales for all the relevant dates have been properly recorded, and verification with CMIL's revenue recognition policy etc. The auditors further submitted that they had ensured completeness of the transactions recorded in books of account and proper presentation and disclosure had been made in the financial statements. Further, as part of their reply to the SCN, the auditors submitted copy of GST returns, GST analysis, reconciliation of accounts and sample invoices.
32. We find that for the following reasons, the reply and explanation given by the auditors are misleading and an afterthought:
  - i. There is no evidence in the Audit File to show that the auditors performed verification of GST returns and reconciliation of turnover with books of account, verification of sales invoices with dispatch orders. There is no evidence in the Audit File to show that the auditors applied analytical and cut-off procedures.
  - ii. According to Para 11(c) of SA 315, the auditors were required to evaluate whether the accounting policy being followed by the company was in accordance with the applicable Financial Reporting Framework and if so, then they were also required to perform such audit procedures to ensure that revenue was being recognised in

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<sup>6</sup> PCAOB release No. 105-2015-028 dated 23.07.2015.

<sup>7</sup> Para 26 and Para 47 of SA 240: The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statement

accordance with the policy of the Company. However, there is no evidence in the Audit File to show that the auditors verified the recognition of Revenue vis-a-vis the Company's policy of Revenue recognition. In fact, the Revenue recognition policy was nowhere found in the Audit File.

- iii. There is no documentation in the Audit File to show that the auditors verified the fundamental assertions of occurrence, completeness and accuracy of the recognized revenue. Nor there is evidence to show that the auditors performed audit procedures like understanding the business entity and relevant industry, and the internal controls governing the generation of revenue.
  - iv. Further, no GST returns (GSTR 1, GSTR 2B, GSTR 3B), GST analysis and sample invoices are evidenced in the Audit File and the same are submitted as part of the reply to the SCN, which is rejected.
33. In light of the foregoing, we find that the auditors displayed gross negligence and lack of due diligence in discharging their duties relating to the audit of the revenue recognized in the Financial Statements, thereby failing to fulfil their responsibility in accordance with SA 200, SA 240 and SA 315 and in obtaining sufficient appropriate audit evidence for verification of Revenue. Non-evaluation of revenue has been viewed seriously by International Regulators as well. For example, the PCAOB, the US Regulator, censured the respondents in the matter of Thomas Kober, CPA<sup>8</sup>, for his failure inter alia to obtain sufficient appropriate audit evidence about whether the revenue was properly valued and recorded in the proper period.

#### **C.4 Failures relating to Audit Documentation**

34. The auditors were charged with failure to prepare sufficient audit documentation in accordance with the requirements of SA 230<sup>9</sup>.

Para 8 of SA 230 requires an auditor to prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand:

- (a) The nature, timing, and extent of the audit procedures performed to comply with the SAs and applicable legal and regulatory requirements;
  - (b) The results of the audit procedures performed, and the audit evidence obtained; and
  - (c) Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.
35. Further, Para 9 of SA 230 states 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.
36. In their written reply, the auditors submitted that "*the audit documentation which we uploaded earlier and enclosed along with this letter will make any of such auditors to understand audit procedures performed as well as result of such audit procedures*

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<sup>8</sup> PCAOB Release No. 105-2019-015

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



*performed, and the audit evidence obtained.*” The auditors also submitted, as part of the reply to the SCN, some documents namely copy of physical verification, sanction letters of various banks documents related to revenue verification, minutes with letters to reconsider restructuring proposals, balance confirmation letters of debtors, materiality setting documents, evaluation of Going Concern assumption etc. Further, in the personal hearing held on 09.04.2024, CA Krishna Kr Neeraj submitted that they could not submit the complete audit working papers due to shifting of their office and also stated that due to peer review of the firm, the working papers were taken out of the Audit File.

37. We find that for the following reasons, the reply and explanation given by the auditors are misleading and are an afterthought:
- i. The Audit File lacked many significant and critical working papers such as:
    - a. Verification of the Inventory as on 31.03.2020, 31.03.2021, 31.03.2022.
    - b. Loan agreements between CMIL and the lenders.
    - c. External verification of Trade Receivables as on 31.03.2020, 31.03.2021, 31.03.2022.
    - d. Working papers for setting materiality and performance materiality.
    - e. Auditor’s evaluation of the appropriateness of Management’s use of the Going Concern assumption.
    - f. Details of the EQC Reviewer and the review work performed by the EQC Reviewer.
    - g. Minutes of the meetings amongst the members of ET, with Management and TCWG.
  - ii. None of the working papers in the Audit File bear any date and signature of the EP or ET Members nor do they bear any seal of the Audit Firm.
  - iii. Most of the Audit Work Papers submitted do not meet any of the basic requirements of Para 8 and 9 of SA 230.
  - iv. The contention of the EP, in personal hearing is not acceptable and rejected as it is the duty of the auditors to duly compile and archive the audit file as per the requirements of SA 230 and SQC 1.
38. The documents submitted by the auditors as part of the reply to the SCN are liable to be rejected as they were not part of the Audit File. Vide affidavit dated 10.08.2023 submitted to NFRA, the auditors had certified that the information submitted was **true and complete (emphasis added)** in all respects and nothing had been concealed. Furthermore, even if the documents submitted by the auditors as part of the reply to the SCN are considered by NFRA, they wouldn’t make any material difference as most of the documents are vague, insufficient and do not meet the requirements of respective SAs.
39. It is the audit documentation that acts as a basis of the auditor’s report and as evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements. In the absence of proper audit documentation, there is no way for us to ascertain whether the required audit procedures were performed at all.
40. The above position clearly demonstrates the auditors gross negligence and lack of due care and diligence in the preparation of audit documents and conduct of audit of a PIE. The auditors 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.

41. Non-documentation of the work performed is clear evidence that the work has not been performed at all. 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.”<sup>10</sup> (Emphasis supplied)*

42. In another case, in the matter of Bharat Parikh & Associates Chartered Accountants, 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 dated 19.03.2019 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.”
43. 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. for the year ended 31 March 2016, imposed a financial sanction of Two Million Pounds, a published statement in the form of severe reprimand against Deloitte and a financial sanction of 65,000 Pounds and a published statement in the form of a severe reprimand against Charlton besides other things, for breach of ISA 230 as they failed to adequately document the audit work papers.
44. In light of the foregoing, we find the explanation of the auditors unacceptable and conclude that the auditors were grossly negligent in performing their duty in accordance with SA 230.

### **C.5 Failures relating to audit evidence for Inventory**

45. The auditors were charged with failure to perform any physical verification or any alternative audit procedure to determine the existence and condition of inventory in accordance with the requirements of SA 501.

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<sup>10</sup> Refer Page 7 of ASIC Audit Inspection Report – Report 743 October 2022

46. Para 4 of SA 501<sup>11</sup> states that when inventory is material to the Financial Statements, the auditor shall obtain sufficient appropriate audit evidence regarding the existence and condition of inventory by (a) attendance at physical inventory counting (b) performing audit procedures over the entity's final inventory records to determine whether they accurately reflect actual inventory count results. Para 5 of SA 501 states that if the physical inventory counting is conducted at a date other than the date of the Financial Statements, the auditor shall, in addition to the procedures required by Para 4 of SA 501, perform audit procedures to obtain audit evidence about whether changes in inventory between the count date and the date of the Financial Statements are properly recorded. Para 6 of SA 501 states that if the auditor is unable to attend physical inventory counting due to unforeseen circumstances, the auditor shall make or observe some physical counts on an alternative date and perform audit procedures on intervening transactions.
47. In their written reply, the auditors stated that during the FY 2019-20, due to outbreak of Covid-19, they conducted the physical verification on 5<sup>th</sup> and 6<sup>th</sup> May 2020. Further for the physical verification of stock, the stock taking was done on a sample basis on 3<sup>rd</sup> and 5<sup>th</sup> April 2021 for the FY 2020-21 and 4<sup>th</sup> and 6<sup>th</sup> April 2022 for 2021-22. The auditors also submitted a copy of stock taking and management letter in this regard.
48. We find that for the following reasons, the reply and explanations given by the auditors are misleading and an afterthought:
- i. There is no evidence in the Audit File to show that the auditors performed physical verification of the inventories as on 31.03.2020, 31.03.2021 and 31.03.2022. The Audit File merely contains the stock statements as prepared by CMIL.
  - ii. The copy of the stock taking submitted by the auditors as part of reply to the SCN, though liable to be ejected, appears to be a bunch of papers from which no conclusion can be drawn.
49. In the light of above, we find the reply and explanation of the auditors unacceptable and find them grossly negligent in performing their duty in accordance with SA 501.
50. Lapses in the audit of inventory have been viewed seriously by International Regulators as well.
- (a) The US audit regulator PCAOB has taken a serious view of the non-performance of audit procedures pertaining to inventory and obtaining sufficient audit evidence. In the matter of AMC Auditing, LLC, the PCAOB order<sup>12</sup> states that *"because inventory observation procedures were not performed for most of the reported inventory, nor was sufficient evidence obtained or conclusions reached to evaluate Issuer B's representations about quantities and physical condition of inventory, Liu failed to obtain sufficient evidence for reported inventory during Issuer B's 2016 audit"* and suspended Mimi Liu, CPA for a period of one year.
- (b) The PCAOB<sup>13</sup>, in the matter of W.T. Uniack CPA, P.C. (firm) and William T. Uniack, CPA (respondent), revoked the firm's registration and barred the respondent from being an associated person of a registered public accounting firm for their failure inter alia to obtain sufficient appropriate audit evidence and exercise due professional care and

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<sup>11</sup> SA 501: Audit Evidence-Specific Considerations For Selected Items

<sup>12</sup> PCAOB Release No. 105-2020-021 dated December 3, 2020.

<sup>13</sup> PCAOB Release No. 105-2017-028

professional skepticism in the audit of inventory. The PCAOB noted that *“An auditor who issues an audit opinion without employing procedures to observe inventories has the burden of justifying the opinion expressed. Moreover, in such circumstances, tests of the accounting records alone will not be sufficient for [the auditor] to become satisfied as to quantities; it will always be necessary for the auditor to make, or observe, some physical counts of the inventory and apply appropriate tests of intervening transactions.”*

#### **C.6 Failure relating to forming opinion on Financial Statements without obtaining Sufficient Appropriate Audit Evidence**

51. The auditors were charged with failure relating to forming opinion on Financial Statements without obtaining sufficient appropriate audit evidence in accordance with the requirements of SA 700<sup>14</sup>. Para 11 of SA 700 requires that in order to form an opinion that the Financial Statements as a whole are free from material misstatements, the auditor needs to obtain sufficient appropriate audit evidence.
52. In their written reply, the auditors responded that they had obtained audit evidence before forming the opinion and complied with the requirements of SAs. The auditors referred to the documents submitted as part of the reply to the SCN.
53. We find the reply and explanation given by the auditors as erroneous and an afterthought. As explained in Sections C1 to C5 above, there were several instances of material misstatements for which the auditors failed to obtain Sufficient Appropriate Audit Evidence; on the contrary, they certified that the Financial Statements of CMIL for the FYs 2019-2020, 2020-21 and 2021-22 (except for going concern) were reflecting True and Fair view. The reply of the auditors clearly shows their lack of understanding and putting into practice the provisions of the SAs thereby displaying a very casual approach in the audit of a PIE.
54. The Auditor’s Opinion in the audit report holds a very high value as it is an assurance given by the auditor to the users and stakeholders about the True and Fair status of the Financial Statements. The auditor’s failure to form opinion on Financial Statements without obtaining Sufficient Appropriate Audit Evidence is not just a matter of gross negligence but also breach of trust reposed by the users of the Financial Statements.
55. We, therefore, find the reply and explanation of the auditors unacceptable, and find that they were grossly negligent in performing their duty in accordance with SA 700<sup>15</sup>.

#### **C.7 Lapses in fulfilling duties related to Engagement Quality Control (EQC) Reviewer**

56. The auditors were charged with failure to comply with the requirement of Para 19 (a) of SA 220<sup>16</sup>, which states that for the audits of Financial Statements of listed entities, the auditor shall determine that an EQC Reviewer has been appointed.
57. There is no evidence in the Audit File to show that the auditors determined that an EQC Reviewer had been appointed; nor there was evidence of any review work performed by EQC Reviewer despite the fact that the CMIL was a listed Company for the FY 2019-2020, 2020-21 and 2021-22.

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<sup>14</sup> SA 700: Forming An Opinion and Reporting on Financial Statements

<sup>15</sup> SA 700: Forming An Opinion and Reporting On Financial Statements

<sup>16</sup> SA 220: “Quality Control for an Audit of Financial Statements

58. The auditors did not respond with respect to this charge in their reply to the SCN.
59. In the audit of Financial Statements of a listed entity, the role of an EQC Reviewer is important for ensuring quality, as the EQC Reviewer evaluates the significant judgments made by the ET, reviews the engagement team's evaluation of firm's independence, checks whether the appropriate consultation has taken place on difficult or contentious matters and reviews the related conclusions reached in forming the overall audit opinion. Such a critical role requires formal appointment of EQC Reviewer with sufficient and appropriate experience and authority in order to objectively perform his/ her duty.
60. We, therefore, conclude that in not determining that an EQC Reviewer had been appointed, the auditors were grossly negligent in performing their duty in violation of Para 19 (a) of SA 220.
61. Non-appointment of EQC Reviewer has been viewed seriously by international regulators as well. For example, the PCAOB<sup>17</sup>, the US Regulator, charged public accounting firm Stein & Company, LLP (Audit Firm) for its failure in audit of Health Talk Live, Inc. ("Health Talk") noting that "The Firm improperly issued the audit report without obtaining an engagement quality review and concurring approval of issuance and thus violated Auditing Standard No. 7, Engagement Quality Review ("AS 7)". For this misconduct, PCAOB censured the Firm and imposed a civil money penalty of \$5000. Similarly in another matter of Halperin Ilanit CPA ("Firm") and Ilanit Halperin, PCAOB<sup>18</sup> among other things stated that "*The Firm failed to obtain engagement quality reviews for any of the Issuer Audits, and improperly permitted Cuentas, Enigma, and SuperCom to use its audit reports for the Issuer Audits without having obtained concurring approval of issuance from an engagement quality reviewer*" and imposed a civil money penalty in the amount of \$200,000 jointly and severally, on the Firm and Halperin; revoking the Firm's registration and requiring Halperin to complete 40 hours of continuing professional education.

### **C.8 Failure to determine Materiality**

62. The auditors were charged with failure to determine materiality for the Financial Statements as a whole while establishing the audit strategy, as required by Para 10 of SA 320<sup>19</sup> and to document the amounts and the factors considered in their determination of materiality for the Financial Statements as a whole and the performance materiality as required by Para 14 of SA 320.
63. Responding to the charge, the auditors replied that they select samples in such a way that a major portion of whole transactions is covered and all the transactions which are material are substantially vouched and verified. The auditor also submitted a copy of materiality statement in their reply.
64. The reply of the auditors is misleading and not acceptable. There is no evidence in the Audit File to show that the auditors set the materiality in accordance with the requirements of SA 320 and guidance<sup>20</sup> on materiality issued by Institute of Chartered Accountants of India (ICAI). Further, the document submitted by the auditors, though

<sup>17</sup> PCAOB release No. 105-2015-040 dated 03.12.2015

<sup>18</sup> PCAOB Release No. 105-2024-012 dated 19, March 2024

<sup>19</sup> SA 320: Materiality in Planning and Performing an Audit

<sup>20</sup> Implementation Guide to Materiality in Planning and Performing an Audit dated February 2012

liable to be rejected as it was not in the Audit File, is a general theoretical document which in no sense can be called as a document for setting materiality. Further, the said document does not bear any seal and signature of the EP thereby raising serious doubts about its genuineness and integrity.

65. According to Para 10 of SA 320, when establishing the overall audit strategy, the auditor **shall** determine the 'Materiality' for the Financial Statements as a whole. In addition, Para 11 of SA 320 states that the auditor shall determine 'Performance Materiality' for the purposes of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures.
66. The use of the expression '**Shall**' in Paras 10 and 11 of SA 320, of the Requirements part of the SA makes it clear that the Requirements are mandatory. The following quote from the Handbook of Auditing Pronouncements issued by the Council of Institute of Chartered Accountants of India or ICAI<sup>21</sup> about the new format of SA applicable from 1st April 2008<sup>22</sup> are relevant:

*IV. The fundamental principles of the Standard are contained in the Requirements section and represented by use of "shall". Hitherto, the word, "should" was used in the Standards, for this purpose. ..."*

67. As there is no working paper in the Audit File evidencing determination of materiality and performance materiality by the auditors, we conclude that the auditors have failed to adhere to the mandatory requirements of determining Materiality in accordance with SA 320 and falsely stated in their report that they had conducted the audit in accordance with the SAs specified under Section 143(10) of the Act.

#### **C.9 Failures related to audit of Trade Receivables**

68. The auditors were charged with failure in audit of Trade Receivables in accordance with the requirements of SA200, SA 500 and SA 505.
69. Para 17 of SA 200 states that the auditor shall obtain Sufficient Appropriate Audit Evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion. Further Para 6 of SA 500 states that the auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining Sufficient Appropriate Audit Evidence. Para 2 of SA 505 states that audit evidence is more reliable when it is obtained from independent sources outside the entity.
70. Responding to the charge, the auditors replied that "*Company is in regular practice of sending letters (with a copy to auditors) to debtors/creditors seeking balance confirmation from the debtors/creditors with the rider that if the balance is not confirmed within 15 days of receipt of the letter, the balance shown in the letter shall be deemed to be confirmed. Copy of such letters or courier slips are enclosed for your references. Though most of the creditors replied with confirmation/statement of accounts. However, we didn't receive any confirmation/statement from debtors*". Further, the auditors submitted that "*Since we or the auditee company never received confirmation from the*

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<sup>21</sup> Section 1 of the Handbook of the Auditing Pronouncements issued by Audit and Assurance Standards Board of the ICAI (2019)

<sup>22</sup> Page 5 of Handbook of the Auditing Pronouncements issued Audit and Assurance Standards Board of the ICAI (2019)

*debtors, we considered debtors balance as per books of auditee company to be correct. Besides, there were no circumstances which cast suspicion over the transactions entered into with the CMI limited and its debtors being PSUs. Moreover, negative confirmations are also a way to get confirmation of accounts. In this way, we did such exercise to obtain relevant confirmation of obtain and therefore complied with the requirement of SA 200, SA 500 and SA 505”.*

71. We find that for the following reasons, the reply and explanation given by the auditors are misleading and are an afterthought:
- a. There is no evidence in the Audit File to show that the auditors applied the procedures required by SAs to confirm the audit assertions of “Existence and Occurrence”, “Completeness” “Accuracy” “Valuation” and “Cutoff”.
  - b. There is no evidence in the Audit File of any external confirmations of Trade Receivables, ageing analysis etc. Further, no documented rationale and reasons are found in the Audit File for not obtaining external confirmations.
  - c. The fact that the auditors relied on the confirmation letter sent by CMIL is astonishing as it is the auditor’s responsibility to select the trade receivables to be confirmed based upon their sampling method and materiality levels. This becomes more grave, looking at the fact that the trade receivables of CMIL formed a material part of the Balance Sheet ranging from 23.50% to 33.08% of total assets of the FY 2019-20 to 2021-22.
  - d. The fact that CMIL **never received confirmation from the debtors** and therefore the auditors considered debtors balance as per books of CMIL to be correct is again astonishing. In such a situation, the auditors were required to design and perform audit procedures like ledger scrutiny, checking of invoices, verification of bank statements and bank reconciliation to logically check and verify the assertion related to Trade Receivables, which the auditors failed to perform.
  - e. Negative confirmations are a way to get confirmation of accounts, but such a procedure is logical only when it involves a small percentage of the whole samples. A cent percent application of negative confirmation reflects the auditor’s lack of knowledge to perform audit and undermines the importance of external confirmations.
72. We, therefore, conclude that the auditors were grossly negligent in performing their duty in violation of SA 200, SA 500 and SA 505.

### **C.10 Failures relating to communication with Those Charged With Governance**

73. The auditors were charged with failure to determine TCWG, communicate with TCWG about the responsibilities of the auditor, overview of planned scope, timing of the audit and deficiencies in Internal Control and to maintain audit documentations of such activities in accordance with the requirements of SA 260<sup>23</sup> and 265<sup>24</sup>.
74. There is no evidence in the Audit File to show that the auditors determined the TCWG or communicated with the TCWG or performed any duty as required by SA 260 and SA 265. It is clear from the Audit File that the auditors failed to identify TCWG and understand its importance as a body that has the responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity, which includes overseeing the Financial Reporting process.

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<sup>23</sup> SA 260: Communication with Those Charged with Governance

<sup>24</sup> SA 265: Communicating Deficiencies in Internal Control to Those Charged with Governance and Management



75. The auditors have not responded to this charge in reply to the SCN.
76. In light of above, we conclude that the auditors failed to exercise due diligence and were grossly negligent in not identifying and communicating with TCWG, overview of planned scope, timing of the audit and deficiencies in Internal Control etc. Consequently, the auditors failed to comply with the requirements of SA 260 and SA 265.
77. Failure to appropriately communicate with Audit Committee (which is a part of the TCWG) has been viewed seriously by international regulators too. For example, PCAOB, the US Regulator, charged the public accounting firm L.L. Bradford & Company, LLC (Audit Firm) for its failure to communicate with the audit committee during the audit of WebXU Inc.'s ("WebXU"). It stated that the "Firm also violated a PCAOB rule that requires a registered public accounting firm to communicate, in writing, to the audit committee ..... " For this misconduct among others, the PCAOB, censured the Firm, revoked its registration, and imposed a civil money penalty of \$12500.

#### **C.11 Failure to report non-compliances with provisions of the Companies Act 2013**

78. The auditors were charged with failure to comply with Section 143 (9)<sup>25</sup> of the Companies Act, 2013 which requires that every auditor shall comply with the SAs.
79. Responding to the charge, the auditors in their written reply stated that they had complied with the SAs and formed the opinion by adopting procedures mentioned in various SAs.
80. The reply of the auditors is erroneous as it makes light of the compliance requirements of the Act and the SAs in light of the errors and omissions mentioned in the foregoing paragraphs of this Order.
81. We, therefore, conclude that the auditors have been grossly negligent in the conduct of their professional duties in violation of Section 143 (9) of the Companies Act, 2013.

#### **D. Specific Lapses of the Audit Firm**

82. In addition to the lapses mentioned in the foregoing paragraphs of this Order, the Audit Firm was charged in the SCN specifically for the failure to fulfill its duties prescribed under Section 143 of Companies Act, 2013 along with failure to adhere to the requirements of SQC 1.
83. The powers and duties of the statutory auditors have been prescribed under Section 143 of the Act. The duties include making their report to the members of the Company after taking into account the provisions of the Act, the Accounting and Auditing Standards (subsection 2); stating in their report and expressing opinion on matters listed in subsection 3; stating the reasons, if any of the matters required to be included in the audit report under this section is answered in the negative or with a qualification (subsection 4); complying with the auditing standards (subsection 9); and reporting to the Central Government matters which they believe involve the offence of fraud (subsection 12). M/s Krishna Neeraj & Associates was the appointed Statutory Auditor of CMIL and accordingly, it was responsible for all the lapses in the conduct of the audit, including the lapses of the EP.
84. Paragraph 2 of SA 220 stipulates that quality control systems, policies and procedures are the responsibility of the audit firm. As per Paragraph 6 of SA 220, the auditor (firm)

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<sup>25</sup> Section 143 (9): Powers and duties of auditors and auditing standards.



has an obligation to establish and maintain a system of quality control to provide it with reasonable assurance that:

- a) The firm and its personnel comply with professional standards and regulatory and legal requirements; and
- b) The reports issued by the firm or engagement partners are appropriate in the circumstances.

85. Para 3 of SQC 1<sup>26</sup> states that the firm should establish a system of quality control designed to provide it with reasonable assurance that the firm and its personnel comply with professional standards and regulatory and legal requirements, and that reports issued by the firm or engagement partner(s) are appropriate in the circumstances. Para 7 of SQC 1 states that the firm's system of quality control should include policies and procedures addressing (a) Leadership responsibilities for quality within the firm. (b) Ethical requirements (c) Acceptance and continuance of client relationships and specific engagements (d) Human resources (e) Engagement performance (f) Monitoring.
86. In its reply to SCN, the audit firm has responded that "the firm is having system of quality control in form of various check lists and policies/procedures related to a) leadership responsibility for quality within the firm, b) Ethical requirements, c:) Human Resources. d) Acceptance & continuance of client relationships and specific engagements e) Engagement performance f) Monitoring". The auditors further submitted that "The firm, has issued audit reports as under section 143 of the Companies Act 2013 in compliance with statement on auditing after duly considering the applicable Accounting Standards and wherever required reported the non-compliances." The auditors as part of the reply to the SCN submitted some general policies.
87. The reply of the auditors is misleading and not acceptable. There is no evidence in the Audit File regarding SQC 1, quality control systems, policies and procedures. The only document in the Audit File is a checklist which cannot be called as a document of quality control systems, policies and procedures. The document purported to be SQC policy of the firm is in fact some general policies relating to human resource, audit risk etc.
88. Therefore, as discussed above, the Audit Firm has made departure from the Standards and the Companies Act, 2013 in the conduct of the audit of CMIL for FY 2019-20, 2020-21 and 2021-22. The poor quality of audit, incomplete documentation and misleading responses further compound the professional misconduct on the part of the Audit Firm. Based on the foregoing discussion and analysis, we conclude that the Audit Firm has committed professional or other misconduct, as defined in the Act. In an audit engagement assigned to an Audit Firm, the responsibility of the Audit Firm is to ensure that its systems and processes are conducive to a high-quality audit in compliance with the Law and Professional Standards. We find that the Firm has failed in this regard.
89. We note that globally also this is the accepted position. The PCAOB orders quoted by NFRA in many of its previous orders underline this fact. For instance, The PCAOB<sup>27</sup>, for charges including violations of auditing standards related to the audit of financial statements of Medicis Pharmaceutical Corporation and subsidiaries, imposed civil

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<sup>26</sup> SQC 1, "Quality Control for Firms that Perform Audit and Reviews of Historical Financial Information, and other Assurance and Related Services Engagements"

<sup>27</sup> PCAOB Release No. 105-2012-001 February 8, 2012.

money penalties of \$2,000,000 to the firm Ernst & Young LLP, \$50,000 to Jeffrey S. Anderson, the Partner with final responsibility of the subject matter audit engagement, \$25,000 to Robert H. Thibault, the independent review partner, and \$25,000 to Ronald Butler, the second partner, supervised by Anderson. The partners were also barred from being associated with a registered public accounting firm. In another case, the PCAOB<sup>28</sup> imposed civil money penalties of \$1,000,000 on KPMG India and \$75,000 on its partner Lakhani for lapses in audit documentation by the partner, who was an ET member. PCAOB also suspended Lakhani from being an associated person of a registered public accounting firm for a period of one year.

90. PCAOB<sup>29</sup> in another matter of Deloitte LLP, censured the firm and imposed penalty of \$350,000 on the firm for its failure to establish, implement, and communicate appropriate quality control policies and procedures to provide the firm with reasonable assurance that the work performed by engagement personnel complied with applicable professional standards, regulatory requirements, and the firm's standards of quality.
91. Further, PCAOB<sup>30</sup>, in the matter of K G Somani & Co. LLP (the Firm) and Anuj Somani, censured the firm and Anuj Somani, and imposed penalty collectively of \$175,000 for its failure inter alia to perform all necessary audit procedures, and its violations of PCAOB standards concerning the performance, supervision, documentation of the audit, and quality control standards.

#### **E. Articles of charges of Professional Misconduct by the Auditors**

92. As discussed in the foregoing paragraphs, the Auditors have made a series of serious departures from the Standards and the Law, in their conduct of the audit of CMIL for FY 2019-2020, 2020-21 and 2021-22. Based on the above discussion, it is proved that the auditors failed to report in their audit report, the misstatement in the financial statements of CMIL. The poor quality of audit as reflected in failures related to fundamental aspects of audit like setting materiality, evaluation of going concern, carrying out external confirmation together with the incomplete documentation, further compound the professional misconduct of the auditors. Based on the foregoing discussions and analysis, we conclude that the Auditors have committed Professional Misconduct as defined under Section 132 (4) of the Companies Act, 2013 in terms of Section 22 of the Chartered Accountant Act 1949 (CA Act) as amended from time to time, and as detailed below:

- i. The auditors committed professional misconduct in terms of by Section 132 (4) of the Companies Act, read with Section 22 and clause 5 of Part I of the Second Schedule of the Chartered Accountants Act 1949 (as amended from time to time), which states that an auditor is guilty of professional misconduct when he *"fails to disclose a material fact known to him which is not disclosed in a financial statement, but disclosure of which is necessary in making such financial statement where he is concerned with that financial statement in a professional capacity"*.

This charge is proved as the auditors failed to disclose in their audit report the material non-compliances by the Company in the area of recognition of the liabilities towards

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<sup>28</sup> In the Matter of KPMG Assurance and Consulting Services LLP and Sagar Pravin Lakhani, PCAOB Release No. 105-2022-033 December 6, 2022.

<sup>29</sup> PCAOB Release No. 105-2021-014

<sup>30</sup> PCAOB Release No. 105-2023-020

banks/financial institutions beyond the NPA dates as explained in paras 17 to 21 above.

- ii. The auditors committed professional misconduct as defined by Section 132 (4) of the Companies Act, read with Section 22 and clause 6 of Part I of the Second Schedule of the Chartered Accountants Act 1949 (as amended from time to time), which states that an auditor is guilty of professional misconduct when he *"fails to report a material misstatement known to him to appear in a financial statement with which he is concerned in a professional capacity"*.

This charge is proved as the auditors failed to disclose in their audit report the material non-compliances by the Company in the area of recognition of the liabilities towards banks/financial institutions beyond the NPA dates as explained in para 17 to 21 above.

- iii. The auditors committed professional misconduct as defined by Section 132 (4) of the Companies Act, read with Section 22 and clause 7 of Part I of the Second Schedule of the Chartered Accountants Act 1949 (as amended from time to time), which states that an auditor is guilty of professional misconduct when he *"does not exercise due diligence and is grossly negligent in the conduct of his professional duties"*.

This charge is proved as the auditors failed to conduct the audit in accordance with the SAs and applicable regulations as well as due to their failure to report the material misstatements and non-compliances of the Company in its financial statements, as explained in the paras 17 to 91 above.

- iv. The auditors committed professional misconduct in terms of by Section 132 (4) of the Companies Act, read with Section 22 and clause 8 of Part I of the Second Schedule of the Chartered Accountants Act 1949 (as amended from time to time), which states that an auditor 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 auditors failed to conduct the audit in accordance with the SAs and applicable regulations as well as due to their failure to report the material misstatements and non-compliances of the Company in the financial statements, as explained in the paras 17 to 91 above.

- v. The auditors committed professional misconduct as defined by Section 132 (4) of the Companies Act, read with Section 22 and clause 9 of Part I of the Second Schedule of the Chartered Accountants Act 1949 (as amended from time to time), which states that an auditor 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 auditors failed to conduct the audit in accordance with the SAs but falsely reported in their audit report that the audit was conducted as per SAs as explained in paras 17 to 91 above.

93. In addition to above, the Audit Firm has committed Professional Misconduct as defined in Section 132 (4) of the Act read with Section 22 of the CA Act, as amended from time to time, by failing to exercise due diligence and being grossly negligent in the conduct of professional duties in respect of matters explained at Section C and Section D above and thus, violated SAs and SQC 1.

94. Therefore, we conclude that the charges of professional misconduct enumerated in the SCN dated 04.12.2023 stand proved based on our analysis of the evidence in the Audit File, the Audit Report issued by auditors, the submissions made by auditors, the annual report of CMIL for the FY 2019-2020, 2020-21 and 2021-22 and other materials available on record.

#### **F. Penalty and Sanctions**

95. Independent Auditors of Publicly Listed Companies are expected to demonstrate sufficiency and appropriateness of audit work in every aspect of the audit of Financial Statements of a PIE. Without a credible audit, Investors, Creditors and other users of Financial Statements would be handicapped. The entire corporate governance system would fail and result in a breakdown in 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 do not adhere to the Standards.
96. As is set out in this Order, the manner in which the audit in question was conducted, failed to meet the requirements of the SAs, the Act and the Code of Ethics in a number of significant aspects which demonstrated gross negligence on the part of the auditor. As we have explained in this Order, substantial deficiencies in Audit including audit documentation and failure to report misstatements in the financial statements on the part of M/s Krishna Neeraj & Associates (Audit Firm) and CA Krishna Kr Neeraj (EP) establish their professional misconduct.
97. Section 132(4) of the Companies Act, 2013 provides for penalties 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.
98. Section 132(4) (c) of the Companies Act 2013 provides that National Financial Reporting Authority shall, where professional or other misconduct is proved, have the power to make order for:
- A) imposing penalty of (I) not less than one lakh rupees, but which may extend to five times of the fees received, in case of individuals; and (II) not less than five lakh rupees, but which may extend to ten times of the fees received, in case of firms;
- (B) debarring the member or the firm from (I) being appointed as an auditor or internal auditor or undertaking any audit in respect of Financial Statements or internal audit of the functions and activities of any company or body corporate; or (II) performing any valuation as provided under section 247, for a minimum period of six months or such higher period not exceeding ten years as may be determined by the National Financial Reporting Authority.
99. As per the information furnished by M/s Krishna Neeraj & Associates vide letter dated 10.08.2023, the statutory audit fees of CMIL for the FYs 2019-2020, 2020-21 and 2021-22 was ₹ [REDACTED]. The total professional fees received by M/s Krishna Neeraj & Associates for the FYs 2019-2020, 2020-21 and 2021-22 was ₹ [REDACTED].
- As per the details of the audited capital account of CA Krishna Kr Neeraj for the FY 2019-2020, 2020-21 and 2021-22, he received net profit and other remuneration amounting ₹ [REDACTED] from M/s Krishna Neeraj & Associates.

100. Considering the proved professional misconduct and keeping in mind the nature of violations, principles of proportionality and deterrence against future professional misconduct, we, in exercise of powers under Section 132(4)(c) of the Companies Act, 2013, hereby order:

- i. Monetary penalty of ₹ 50,00,000/- (Rupees Fifty Lakhs) upon the Audit firm, M/s Krishna Neeraj & Associates.
- ii. Monetary penalty of ₹ 10,00,000/- (Rupees Ten Lakhs) upon CA Krishna Kr Neeraj.
- iii. CA Krishna Kr Neeraj is also debarred for 2 (Two) 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.

101. This Order will become effective after 30 days from the date of issue.

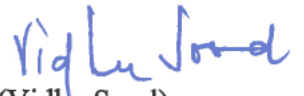
Sd/-  
(Dr. Ajay Bhushan Prasad Pandey)  
Chairperson

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

Sd/-  
(Smita Jhingran)  
Full-Time Member

Authorised for issue by the National Financial Reporting Authority,

Date: 26.04.2024  
Place: New Delhi

  
(Vidhu Sood)  
Secretary

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