

**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. - 016/2024

Date: 21.06.2024

**ORDER**

**Order under Section 132(4) of the Companies Act 2013 in respect of CA Krishna Bihari Chaturvedi (ICAI Membership No. 413754).**

This Order disposes of the Show Cause Notices dated 07.12.2022 and 17.01.2024, issued to CA Krishna Bihari Chaturvedi, partner of M/s K.B. Chaturvedi & Associates (Audit Firm), (ICAI Firm Registration No: 016107C), who is a Member of the Institute of Chartered Accountants of India (ICAI Membership No. 413754) who signed the Audit Report for the statutory audit of five branches of Dewan Housing Finance Corporation Limited (DHFL), a company listed on both National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE) for the Financial Year 2017-18. This Order is divided into the following sections:

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

**A. EXECUTIVE SUMMARY**

1. This Order is being passed as a result of an investigation by the National Financial Reporting Authority (NFRA) into the professional conduct of CA Krishna Bihari Chaturvedi for his role as a Partner in the audit of five branches of DHFL. DHFL, a housing finance company listed on NSE and BSE, and operating through a network of branches, was reportedly involved in financial fraud. NFRA took suo motu notice of the matter pursuant to an Audit Quality Review (AQR) of the statutory audit of DHFL for FY 2017-18, conducted by Chaturvedi & Shah (CAS), a Mumbai-based Chartered Accountant Firm. During the review, NFRA also noticed that 33 Engagement Partners (EP) or branch auditors had signed the "Independent Branch Auditors' Report" for nearly 250 branches. The Statutory Auditor of the Company viz, CAS had referred to these so-called Branch Audit reports in their report to the members of the Company. NFRA investigated these EPs responsible for Branch Audits under section 132 (4) of the Companies Act, 2013 (the Act), including CA Krishna Bihari Chaturvedi, who signed the audit reports of five of the 250 branches of DHFL.
2. NFRA's investigations revealed that the appointment of none of the 33 branch auditors was approved at the Annual General Meeting (AGM) of DHFL, as required by the Act. The Audit Firm accepted the appointment and CA Krishna Bihari Chaturvedi issued an "Independent Branch Auditor's Report" portraying himself as the Branch Statutory Auditor. By doing so, his Audit Firm not only accepted a legally invalid appointment but also violated the provisions of the Chartered

Accountants Act, 1949 (CAs Act), which required it to ensure that the appointment was valid as per the Act.

3. Notwithstanding this defective appointment (which was accepted by CA Kashinath Chaturvedi, the then Partner of the Audit Firm) the Branch Audit Reports issued by CA Krishna Bihari Chaturvedi was examined by NFRA from the standpoint of compliance with the applicable Standards on Auditing (SAs) in the performance of the branch audit and it was found that both the partners had not complied with the requirements laid down in the SAs and had not maintained proper audit documentation as per the standards, which pointed to their possible professional misconduct in terms of Section 132 (4) of the Act. Accordingly, we initiated disciplinary proceedings under Section 132(4) against both the partners, which established their professional misconduct. Thus, Order No. 017/2024 dated 21.06.2024 has been issued against CA Kashinath Chaturvedi, who had accepted the audit engagement without due diligence.
4. Based on the nature of professional misconduct and other factors, this Order imposes on CA Krishna Bihari Chaturvedi a monetary penalty of ₹1 lakh and debarment for one year from being appointed as an auditor or internal auditor or from undertaking any audit in respect of financial statements or internal audit of the functions and activities of any company or body corporate.

## **B. INTRODUCTION AND BACKGROUND FOR THE ORDER**

5. NFRA is a statutory authority set up under Section 132 of the Act to monitor the implementation and enforce compliance with the auditing and accounting standards and to oversee the quality of service of the professions associated with ensuring compliance with such standards. NFRA has the powers of a civil court and is empowered under Section 132 (4) of the Act to investigate the prescribed classes of companies and impose penalties for professional or other misconduct of the individual members or firms of chartered accountants.
6. The statutory auditors, both individual and firm of chartered accountants, are appointed by the members of companies under Section 139 of the Act. The statutory auditors, including the Engagement Partners and the Engagement Team that conduct the audit, are bound by the duties and responsibilities prescribed in the Act, the rules made thereunder, the Standards on Auditing (SA), including the Standards on Quality Control and the Code of Ethics, the violation of which constitutes professional misconduct, and is punishable with penalty prescribed under Section 132 (4) (c) of the Act.
7. Following media reports on the alleged siphoning of public money of around ₹31,000 crore and the Enforcement Directorate's reported action in April 2020 on an alleged banking fraud of about ₹3,700 crore by the promoter/ directors of DHFL, NFRA suo-motu initiated an Audit Quality Review (AQR) to probe into the role of the Statutory Auditors of DHFL for the FY 2017-18, the year in which the alleged fraud was primarily stated to have occurred. While examining the Audit Files of the statutory audit carried out by CAS, a Mumbai-based CA firm, certain prima facie violations were observed relating to the appointment of Branch Auditors and the conduct of branch audits of DHFL, which were referred to by the statutory auditor CAS. Accordingly, NFRA suo motu called for the audit files from the audit firms which had issued the "Independent Branch Auditors' Report" for nearly 250 branches, under Section 132(4) of the Act, including from CA Krishna Bihari Chaturvedi, to whom this Order relates and who issued the audit report for the five branches of DHFL at Ghatkopar, Khopoli, Roha, Shahapur and Bhiwandi.



8. DHFL, a housing finance company listed on both NSE and BSE, was required to prepare its Financial Statements for the Financial Year (FY) 2017-18 in accordance with Schedule III and other applicable provisions of the Act.
9. As part of our investigations, the Audit Firm was asked to provide the Audit File<sup>1</sup> within 15 days vide NFRA letter dated 10.08.2022. Due to the non-receipt of requisite information, we suo-motu extended the date to 15.09.2022 vide NFRA letter dated 01.09.2022. The Audit File along with other information in respect of the five branches for FY 2017-18 were submitted on 15.09.2022 on an affidavit by CA Kashinath Chaturvedi, the then partner of the Audit Firm, who accepted the appointment on behalf of the Firm. CA Kashinath Chaturvedi also submitted that the audit work was done by CA Krishna Bihari Chaturvedi, who signed all the audit reports. He also stated that the Audit File was maintained by CA Krishna Bihari Chaturvedi. Accordingly, we sought the Audit File from CA Krishna Bihari Chaturvedi, who vide his email dated 29.09.2022 submitted that “...all audit files and working paper is in possession of Mr. Kashinath Chaturvedi in respect to the said assignment...”. Accordingly, the proceedings were conducted based on the Audit File received on an affidavit from CA Kashinath Chaturvedi.
10. CA Krishna Bihari Chaturvedi submitted in his letter dated 29.09.2022 that CA Kashinath Chaturvedi was the managing partner of the firm at the time of appointment and was the EP for the audit engagement. He stated that due to poor health of CA Kashinath Chaturvedi at the time of the audit, “the audit report has been signed by Mr. Krishna Bihari Chaturvedi on behalf of Mr. Kashinath Chaturvedi”.
11. Under the above circumstances, we examined in detail the Audit File submitted, the Audit Reports issued and other records. We found no evidence or information in the working papers regarding who performed the audit procedure and the nature, extent and timing of audit procedures.
12. On being satisfied that prima facie sufficient cause existed to take action under sub-section (4) of Section 132 of the Act, a Show Cause Notice (SCN hereafter) was issued to CA Krishna Bihari Chaturvedi on 07.12.2022, asking him to show cause why action should not be taken for professional misconduct in respect of the performance as the Statutory Auditor of five branches of DHFL for the FY 2017-18. He was charged with professional misconduct on account 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 the expression of an opinion, or its exceptions are sufficiently material to negate the expression of an opinion, and
13. The SCN was duly sent to CA Krishna Bihari Chaturvedi on 07.12.2022 to his email, which was used for regular correspondence. A copy of the Audit File was also appended to the SCN. A hard copy of the SCN and a DVD containing the soft copy of appendices (including the Audit File) were also sent to his address. The correctness of the address was also confirmed by him over the phone on 19.12.2022. However, he did not accept the speed post which was returned undelivered with the remarks by the postal department that “Recipient lives there. House was found locked” and “Addressee left without instructions”. However, vide email dated 22.12.2022, he informed us about the non-receipt of the physical copy of the SCN and requested a time extension for submitting the reply. In the interest of fairness, the physical copy of the SCN was again sent to him and the last date for submission of the reply to SCN was extended to 12-01-2023. We also provided the SCN and annexures via an online NFRA folder communicated to him on 29.12.2022. The speed post containing the SCN and appendices was delivered to him on 31.12.2022.

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



14. On 04.01.2023 CA Krishna Bihari Chaturvedi requested further extension of time to submit the response to the SCN and a request for a personal hearing before the Executive Body (EB) of NFRA. He sought time of 30 days from the receipt of a hard copy of the SCN, but no response was received from him even after the completion of 30 days. On 09.02.2023 we suo motu extended the date of submission of reply once again. On his failure to submit the reply, we suo motu extended the time on 16.02.2023 and again on 26.04.2023. It was also informed to him that an opportunity for a personal hearing would be granted after submission of the written response to the SCN. The last date for submitting a response to the SCN after three extensions was 02.05.2023. However, he did not file any reply before the stipulated date. On 16.05.2023 he represented to the Ministry of Corporate Affairs (MCA) to stay the proceedings until the receipt of the complete Audit File. He also filed a writ petition in the Hon'ble Allahabad High Court (WPC. NO. 20639 of 2023) requesting to quash the SCN. The Hon'ble Allahabad High Court disposed of the petition vide its order dated 10.07.2023 and required him to submit the reply to the SCN within two weeks. He then submitted the reply to the SCN on 24.07.2023.
15. CA Krishna Bihari Chaturvedi attended the personal hearing on 31.08.2023. After the personal hearing, he submitted an Affidavit dated 04.09.2023 wherein he stated that he had signed the Audit Reports after "*due diligence necessary for making opinion*".
16. On perusal of written and oral response of CA Krishna Bihari Chaturvedi, it was found that apart from the charges mentioned in the SCN dated 07.12.2022, he had also prima facie failed to comply with Clause 2 of Part 1 of the Second Schedule to Chartered Accountants Act, 1949. Thus, vide Supplementary SCN dated 17.01.2024, an additional charge was added as Section A (II) to the SCN dated 07.12.2022. He was asked to submit his reply to the supplementary SCN by 01.02.2024. Complete SCN and appendices were delivered to him on 17.01.2024 via email. However, the physical copy of SCN sent to him via speed post returned undelivered from the address mentioned in his affidavit, on which we had earlier communicated with him. Since no response was received, the last date for the reply to Supplementary SCN was suo motu extended to 11.02.2024. On 12.02.2024 he requested to re-post the Supplementary SCN and give further time extension. The supplementary SCN was sent again and the last date was extended to 29.02.2024. However, no response was received from him. The last date to submit a reply was again suo-motu extended to 29.03.2024. Despite repeated extensions and even after giving multiple opportunities to present his case, he did not submit any response to the Supplementary SCN. Therefore, we examined the audit file, audit reports, reply to SCN dated 07.12.2022, his communications and submissions during the personal hearing and accordingly proceed to issue this Order based on evidence on record. Only the violations/actions/omissions proved to result in one or more professional misconducts as per the articles of charges in the SCNs are covered in this Order.

### **C. MAJOR LAPSES IN THE AUDIT**

17. Regarding the opinion in the Independent Branch Auditor's Report for five branches of DHFL, CA Krishna Bihari Chaturvedi was charged with Non-compliance with Clause 2 of Part 1 of the Second Schedule to Chartered Accountants Act, 1949, which states "*a chartered accountant in practice shall be deemed to be guilty of professional misconduct, if he certifies or submits in his name, or in the name of his firm, a report of an examination of financial statements unless the examination of such statements and the related records has been made by him or by a partner or an employee in his firm or by another chartered accountant in practice*". He was also charged with non-compliance with SAs while issuing the audit opinion on the accounts of the five branches of DHFL.



18. He did not reply to the charges in the supplementary SCN regarding non-compliance with Clause 2 of Part 1 of the Second Schedule to Chartered Accountants Act, 1949. Regarding non-compliance with SAs, he submitted that the audit file with the erstwhile partner contained all the required details. We also note that CA Krishna Bihari Chaturvedi did not specifically mention any documents missing in the audit file provided to him (which we obtained from his erstwhile partner) as part of the SCN. Earlier, during the personal hearing held on 31.08.2023, he reiterated that CA. Kashinath Chaturvedi (Partner in K.B. Chaturvedi & Associates, the Audit Firm) was the managing partner of the firm in terms of the Partnership Deed dated 01.07.2012 and was responsible for making decisions on behalf of the Audit Firm. He also mentioned that two days before signing the Audit Reports, he had “received a call” from CA Kashinath Chaturvedi to sign the audit reports of five branches of DHFL for FY 2017-18. After the personal hearing, he submitted an Affidavit dated 04.09.2023 stating that “being the managing partner and Mumbai branch-in-charge, the audit has been done by him [CA Kashinath Chaturvedi] and due to his urgency and his call I, Krishna Bihari Chaturvedi, had done [sic] due diligence necessary for making opinion”. He also certified in the audit report(s) that “we conducted our audit in accordance with the Standards on Auditing specified under Section 143(10) of the Act [Companies Act, 2013]”.
19. In this regard, we observe that there is no evidence of compliance with either Clause 2 of Part 1 of the Second Schedule to Chartered Accountants Act, 1949 or the requirements of SA 220<sup>2</sup>, SA 230, SA 500, SA700<sup>3</sup>, and the ICAI Code of Ethics 2009. The evidence of non-compliance is as follows:
- a. There is no evidence in the Audit File or explanations to demonstrate if any assessment of the accounts of the branch, as required by SA 700, was performed by him or under his supervision, before arriving at an audit opinion. This conclusion follows since the audit documentation does not record (a) the nature, timing and extent of audit procedures performed, (b) the results thereof, (c) the audit evidence obtained, (d) conclusions reached, (e) who performed the audit work, (f) who reviewed the audit work and extent of such review<sup>4</sup>. The details of the engagement team, the duration of the audit and the roles and responsibilities of the partners involved are absent in the Audit File (SA 230).
  - b. There is no evidence in the Audit File to prove that the examination of records and the certified Trial balance has been done by CA Krishna Bihari Chaturvedi or another partner or an employee of the Audit Firm<sup>5</sup>.
  - c. There is no evidence of the engagement partner’s review of audit documentation and discussion with the Engagement Team regarding the appropriateness of the audit evidence for the audit reports (Para 17 of SA 220).
20. The ICAI Code of Ethics 2009 clarifies that Clause 2 of Part 1 of the Second Schedule to the Chartered Accountants Act, 1949 restrains a member from subscribing to the report on a financial statement so long as it has not been examined by him or by a partner or an employee of his firm or by another chartered accountant in practice. It has been introduced to ensure that the work entrusted to him has been carried out by the member either directly or under his supervision before he renders his report. Thus, it was EP’s duty to ensure that an examination of the accounts of the branch was duly conducted before signing the audit reports. There is no evidence of compliance in this regard.
21. Thus, the unqualified audit opinion expressing a “true and fair view” of the branches of DHFL was issued by CA Krishna Bihari Chaturvedi without exercising due diligence. He issued the audit

<sup>2</sup> Para 7, 9, 10, 15 and 17 of SA 220, Quality Control for an Audit of Financial Statements

<sup>3</sup> Para 6(a), 10 and 11 of SA 700, Forming an Opinion and Reporting on Financial Statements

<sup>4</sup> Para 5, 8 and 9 of SA 230, Audit Documentation and Para 4 and 6 of SA 500, Audit Evidence

<sup>5</sup> Clause 2 of Part 1 of Second Schedule to the Chartered Accountants Act, 1949



reports titled “*Independent Branch Auditors’ Report*” without ensuring compliance with SA 220, SA 230, SA 500, SA 700, Chartered Accountant Act, 1949 and ICAI Code of Ethics, 2009. The non-compliance with these is professional misconduct in terms of section 132(4)(c) of the Companies Act 2013. Therefore, we find that the charges in paras 17 above are proved.

22. Such lapses relating to the signing of audit reports and issuing certificates without verification of relevant documents have been viewed seriously by the ICAI in the past. We note that in one case, a Chartered Accountant issued certificates of consumption which did not reflect the correct factual position of the consumption of raw materials by the concerned units. Also, the same certificates had been issued without examining and scrutinising thoroughly/properly the requisite records. ICAI held that the respondent was guilty of professional misconduct under clauses (2) and (7) of part I of the second schedule read with sections 21 & 22 of the Chartered Accountants Act, 1949. (JDI, Bombay vs. B.K. Kurhade - Page 585 of Vol. VIII – 1 – 21(6) of Disciplinary Cases- Judgement dated 12th August 2004).
23. CA Krishna Bihari Chaturvedi was also charged with non-compliance with other SAs. There is no evidence in the audit file regarding compliance with any of the SAs. In the absence of evidence, the charges regarding non-compliance with the following SAs stand proved:
- a) Para 6, 7, 8, 9 & 10 of SA 300 since he failed to establish an overall audit strategy and development of audit plan etc. in accordance with SA 300.
  - b) Para 10, 11 & 14 of SA 320 for determining materiality, performance materiality and documentation thereof.
  - c) Para 6 & 9 of SA 500 in not designing and performing audit procedures to obtain sufficient appropriate audit evidence and not evaluate the reliability of information produced by the company.
  - d) Para 5, 6 and 8 of SA 510 relating to the performance of necessary audit procedures and obtaining sufficient and appropriate audit evidence to ascertain the accuracy of Opening Balances and the accounting policies reflected in the Opening Balances.
  - e) Para 6 of SA 520 relating to the design and performance of analytical procedures.
  - f) Para 4, 6, 7, 8 & 9 of SA 530 relating to the determination of sample design, sample size and required audit procedures.
  - g) Para 8, 9 & 10 of SA 580 regarding obtaining written representations from the management about their responsibilities.
  - h) All provisions of SA 230 since the Audit File also does not give evidence of the nature, timing and extent of audit procedures performed, results of those audit procedures and conclusions reached during the audit as required by SA 230.

#### **D. FINDINGS ON THE ARTICLES OF CHARGES OF PROFESSIONAL MISCONDUCT**

24. Given the above-mentioned actions and omissions, it is established that CA Krishna Bihari Chaturvedi did not comply with the stipulations in the Chartered Accountants Act, 1949, ICAI Code of Ethics 2009 & SAs. The subject matter assignment was accepted and executed as a Statutory Branch Audit. However, CA Krishna Bihari Chaturvedi was grossly negligent in performing his professional duties by not adhering to the requirements laid down by the relevant SAs, despite stating in his audit reports that he had complied with SAs. The following failures on the part of CA Krishna Bihari Chaturvedi as contained in the Articles of Charges in the SCNs are established.
- a) Failure to comply with the requirements of Clause 2 of Part 1 of Second Schedule to Chartered Accountants Act, 1949 which states “a chartered accountant in practice shall be deemed to be guilty of professional misconduct, if he— certifies or submits in his name, or in the name of



his firm, a report of an examination of financial statements unless the examination of such statements and the related records has been made by him or by a partner or an employee in his firm or by another chartered accountant in practice”,

- b) Failure to exercise due diligence and being grossly negligent in the conduct of professional duties, because of the lapses and omissions as explained and proved in parts C above. (As per Section 22 and Clause 7 of Part I of Second Schedule to the CAs Act);
- c) Failure to obtain sufficient information which is necessary for the expression of an opinion or its exceptions are sufficiently material to negate the expression of an opinion, because of the lapses and omissions as explained and proved in part C above. (As per Section 22 and Clause 8 of Part I of the Second Schedule to the CAs Act); and

Thus, we find that CA Krishna Bihari Chaturvedi committed professional misconduct, as defined in the respective clauses of the CAs Act, the meaning of which is conceived under Section 132 (4) of the Companies Act as amounting to professional misconduct.

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

- 25. Section 132(4) of the Companies Act, 2013 provides for penalties in a case where professional misconduct is proved. The law lays down a minimum punishment for such misconduct.
- 26. In this case, the information contained in the Financial Statement, includes material information from the Branches of the Company, where a substantial part of the lending activities was carried out.
- 27. A Branch Auditor is duty-bound to examine and ascertain the integrity of the underlying information forming the Financial Statements of such entities<sup>6</sup> in the larger public interest.
- 28. In this case, while all the documents and reports described the engagement as a statutory branch audit and the audit was, in substance as well as in form, a statutory branch audit, none of the legal requirements regarding the appointment of the statutory audit was complied with. More importantly, CA Krishna Bihari Chaturvedi issued the audit reports as a statutory branch auditor. He was well aware that these reports would ultimately be used and referred to by the Company's auditor, to whom these reports were addressed. He also certified in his report that the engagement is performed as per SAs. Despite all these facts, the evidence shows several non-compliance with applicable SAs. The nature and extent of non-compliance with the SAs resulted in a baseless audit opinion, which was finally referred to in the report of Chaturvedi & Shah, the Company's Statutory Auditors.
- 29. As detailed in the foregoing paragraphs, there were deficiencies in the Audit and abdication of responsibility on the part of CA Krishna Bihari Chaturvedi in the actual conduct of the audit of the DHFL branches. We conclude that despite being a qualified professional, CA Krishna Bihari Chaturvedi has not adhered to the Standards on Auditing and provisions of the law. We also note his non-cooperation during the proceedings by not replying to the SCN in time and not accepting the communications sent by post. These facts establish his gross negligence resulting in professional misconduct.
- 30. Considering the fact that professional misconducts have been proved and considering the nature of violations and principles of proportionality and keeping in mind the deterrence, proportionality, signalling value of the sanctions and time required for improvement in knowledge gaps we, in

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<sup>6</sup> As defined in Rule 3 of NFRA Rules 2018

exercise of powers under Section 132(4)(c) of the Companies Act, 2013, proceed to order the following sanctions:

- i. Imposition of a monetary penalty of **₹ 1 Lakh (Rupees One Lakh)** upon CA Krishna Bihari Chaturvedi;
- ii. CA Krishna Bihari Chaturvedi is debarred for **One Year** from being appointed as an auditor or internal auditor or from undertaking any audit in respect of financial statements or internal audit of the functions and activities of any company or body corporate.

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

Signed  
(Dr Ajay Bhushan Prasad Pandey)  
Chairperson

Signed  
(Dr Praveen Kumar Tiwari)  
Full-Time Member

Signed  
(Smita Jhingran)  
Full-Time Member

Authorised for issue by the Executive Body of National Financial Reporting Authority.

Date: 21.06.2024  
Place: New Delhi

  
(Vidhu Sood)  
Secretary

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

To,  
CA Krishna Bihari Chaturvedi,  
ICAI Membership No - 413754,  
Partner, M/s K.B. Chaturvedi & Associates,  
Chartered Accountants,  
(ICAI Firm Registration No: 016107C)  
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Copy To: -

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