NF No. -20012/1/2022
भारत सरकार / Government of India
राष्ट्रीय वित्तीय रिपोर्टिंग प्राधिकरण / National Financial Reporting Authority
*****

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

No. NF-20012/1/2022 Date:21.06.2022

ORDER UNDER SECTION 132(4) OF THE COMPANIES ACT IN RESPECT OF THE SHOW CAUSE NOTICE ISSUED TO CA GULSHAN JAGDISH JHAM (ICAI Membership No. 408315)

A. BACKGROUND

1. A Show Cause Notice (SCN) was issued on 22nd March 2022 to CA Gulshan Jagdish Jham (**the CA**) in terms of the powers vested in the National Financial Reporting Authority (**NFRA**) under Section 132(4) of the Companies Act, 2013 (**the Companies Act**), asking him to show cause as to why action should not be taken against him for professional misconduct in respect of his performance as the statutory auditor of Prabhu Steel Industries Limited (**PSIL**), a listed company, for the financial year 2019-20. The CA has been charged with professional misconduct of:
    a. failure to disclose material facts 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;
    b. failure to report material misstatements known to him 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; and
    e. failure to invite attention to any material departure from the generally accepted procedure of audit applicable to the circumstances.

2. **PSIL** is a company listed on the Bombay Stock Exchange (as on 31st March 2020) and therefore, as per Rule 4 of the Companies (Indian Accounting Standards) Rules, 2015, it is required to comply with the Indian Accounting Standards (Ind AS) prescribed under these rules for the preparation and

presentation of its annual financial statements. The CA has issued an unmodified report on the financial statements of the Company for the year 2019-20 stating that "*In our opinion and to the best of our information and according to the explanations given to us,* ***the aforesaid financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India****, of the state of affairs of the Company as at March 31, 2020, and of profit, changes in equity and its cash flows for the year ended on that date.*".

3. NFRA, pursuant to the duty cast upon it by virtue of Section 132 (2) (b) of the Companies Act, 2013 and Rule 7 of the NFRA Rules, 2018, had taken up the Financial Reporting Quality Review (FRQR) of the Financial Statements of PSIL for the financial year 2019-20. The FRQR inter alia verifies compliance with the requirement of the Accounting Standards by the Company in the preparation and presentation of the Financial Statements. After duly completing the FRQR process, the NFRA published the FRQR Report dated 14th February 2022 (hereinafter referred to as the FRQRR) on its website https://nfra.gov.in/.
4. NFRA observed in this FRQRR that the PSIL had not complied with Ind AS reporting framework and applicable provisions of the Companies Act 2013 in the preparation and presentation of its financial statements. This has resulted in a significant misstatement of almost all the figures and disclosures made in the financial statements for the year 2019-20. Some of the major violations observed by NFRA are as follows.
    a. The IndAS requirements mandate measuring impairment loss (expected credit loss), on debtors, loans and advances. The debtors, loans and advances put together constitute 53.5% of the total assets of Rs 16 crore. Therefore, the impact on account of the expected credit loss/impairment (which is a charge to the profit and loss) will have a major effect on the profits before taxes of the Company which is only 0.35% of the total assets. However, the company did not provide for any such losses, thereby reporting inflated profits. Because the audit firm did not verify this aspect, it resulted in showing inflated profit to the users of the financial statements, e.g., the public and shareholders. The public and shareholders base their decision on investment in a company inter alia on financial statements and financial parameters. Any default by the auditor which results in companies showing inflated profit will be misleading to the existing as well as potential investors and creditors.
    b. The Companies Act requires a Statement of Changes in Equity as part of the financial statements, without which the financial statements will not be complete as per the Companies Act. This statement gives the reconciliation between the opening balance and closing balance of shareholder's equity and summarises the related transactions. Movement in retained earnings, reserves and changes in share capital such as the issue of new shares and payment of dividends are disclosed in this report. PSIL being a listed company such information is crucial to the understanding of the whole set of financial

statements by the users. The CA has failed to verify and ensure that information pertaining to changes in equity is provided in the Statement of Changes in Equity as part of the Financial Statements.

c. As per the Companies Act, PSIL was required to prepare a consolidated financial statement including all its subsidiaries and associates. But PSIL did not prepare a consolidated financial statement despite the existence of a material associate company named Haryana Metals Ltd. This has made the whole set of financial statements unreliable. The CA failed to report this in his audit report pertaining to PSIL.

d. Other major findings in the FRQR are further explained in para 1.3 of the Appendix to this order.

5. NFRA on careful examination of all material on record has arrived at the finding in FRQR that the said financial statements do not meet the requirements of the Companies Act and do not present a true and fair view of the state of affairs of the company and therefore are null and void due to the above-mentioned non-compliances with the applicable laws.

6. Despite such violations by the company, the CA in his audit report did not report any of the above non-compliances with the applicable financial reporting framework and failed to consider laws & regulations during the audit, resulting in issuing a false audit report and thus committing professional misconduct as stated in (a) to (e) of para 1 above.

7. NFRA has also examined the Audit File (as defined in para 6(b) of SA 230 – Audit Documentation) for the above-said audit submitted by the CA. NFRA observed from the Audit File that the audit had been conducted in disregard of all the standards on auditing (SA) applicable to the said audit. This non-compliance with Standards on Auditing has resulted in professional misconduct as stated in (c) and (e) of para 1 above.

8. Therefore, the NFRA on its satisfaction that sufficient cause exists to take action permissible under sub-section (4) of section 132 of the Companies Act, issued a Show Cause Notice (SCN) to CA Gulshan Jagdish Jham in terms of Rule 11 (1) of the NFRA Rules 2018. The CA was required by the SCN to submit his reply to the SCN latest by 21st April 2022. However, on request from the CA the time was extended once and the CA finally filed his written reply on 2nd May 2022.

9. In his reply to the SCN, the CA has referred to the Company's (PSIL) letter to NFRA dated 25.04.2022, wherein the company has admitted all the non-compliances observed by NFRA regarding violations of the applicable financial reporting framework and the Companies Act, 2013, in preparing and presenting the financial statements for the financial year 2019-20. The CA did not deny any of the charges levelled by NFRA.

10. The CA was given an opportunity of a personal hearing by NFRA on 24th May 2022 at the NFRA office in line with Rule 11(5) of NFRA Rules 2018. The CA on 13th May 2022 requested postponement of the hearing owing to personal reasons. The hearing was accordingly held on 31st

May 2022, through video conferencing and was attended by the CA. The oral hearing proceedings through the VC have been recorded.

B. FACTS OF THE CASE AND ARTICLE OF CHARGES

11. The facts of the matter and the articles of charge as provided in the SCN are reproduced below in the Appendix to this Order.

C. REPLIES OF THE CA TO THE ARTICLES OF CHARGES

C.1. Examination of the CA's reply to the SCN

C.1.1. Summary of the Reply

12. The CA in his written reply dated 02.05.2022 submits that "*Extensive efforts have been made so as to ensure that the insufficiencies and observations pointed out in the FRQRR along with deficiencies mentioned in the show cause notice dated 22nd March 2022 with respect to standards on auditing issued by the Institute of Chartered Accountants of India ("ICAI") along with misstatements in financial statements have been duly rectified in the draft revised auditor's report along with draft restated financial statements of the company keeping in mind the standards on auditing issued by the Institute of Chartered Accountants of India ("ICAI").*"

13. The CA in his reply further says that "*I myself had no intention to deliberately misstate any part of the audit report or not to disclose any misstatements in the financial statements. Professional duties are and always will be held over and above conduct and interests failing which I myself regret.*" The CA specifically did not deny any of the charges in the SCN.

14. The CA also referred to a letter from PSIL to NFRA dated 25.04.2022 wherein PSIL has admitted all the non-compliances observed by NFRA in the FRQRR. PSIL also states in the said letter that the financial statements are being redrafted.

15. During the oral hearing on 31st May 2022, the CA admitted all the charges in the SCN. He accepted his default and submitted that he did not know about the IndAS requirements as he is a small-town practitioner. He further submitted during the oral hearing that the mistakes that happened were not intentional and there was no intention of fraud either by the Company or by him. He further submits that no damage has been made to the public on account of his failure in the said audit.

C.1.2. Examination of the CA's reply and Conclusion

16. The CA has not denied any charges though he has said that the lapses were not intentional. He has also said that his client company was revising the financial statements based on non-compliance

observed by NFRA. The revision of the financial statements by the Company and the issue of a revised audit report by the CA or his claim of lapses being unintentional do not absolve him of the professional misconduct already committed by him. All the charges in the SCN are supported by facts and evidence, which are not denied or rebutted by the CA, and are hence proved.

17. Para 1.0 of the SCN (reproduced in the Appendix below) deals with failures of the CA to issue an audit report appropriate to the circumstances. This has resulted in misconduct detailed in para 1(a) to 1(e) above. Similarly, the charges in para 2.0 of the SCN (reproduced in the Appendix below) regarding violation of SAs have resulted in misconducts detailed in para 1 (c) and 1 (e) above.
18. The explanation to Sec 132(4) says that for the purposes of the sub-section, the expression "professional or other misconduct" shall have the same meaning assigned to it under section 22 of the Chartered Accountants Act, 1949 (the CA Act). This will have to be read in the context of the specific jurisdiction that has been granted to the NFRA. The First and Second Schedules to the Cas Act define what constitutes "professional or other misconduct". These Schedules apply to all Cas, whether in practice or employment. NFRA's jurisdiction is, however, confined to auditors of Companies and Body Corporates specified in Rule 3 of NFRA Rules 2018, made under the Companies Act 2013. These auditors have to now work in terms of the framework provided by the Companies Act, 2013, and the accounting and auditing standards prescribed under the Companies Act. "Professional or other misconduct" as defined in the Schedules to the CA Act has to be understood in the context of the work that the PIE auditor has to do, and the responsibility cast on him. Essentially, therefore, a failure to comply with the auditing and accounting standards which now have the status and force of law under section 143 of the Companies Act, would amount to professional misconduct.
19. In addition to the requirements in the Companies Act, SA 200 – 'Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing' states as follows.
    a. Para18 – The auditor shall comply with all Sas relevant to the audit.
    b. Para 20 – The auditor shall not represent compliance with Sas in the auditor's report unless the auditor has complied with the requirements of this SA and all other Sas relevant to the audit.
    c. Para 22 – Subject to paragraph 23, the auditor shall comply with each requirement of an SA unless in the circumstances of the audit: (a) The entire SA is not relevant; or (b) The requirement is not relevant because it is conditional and the condition does not exist.
20. Therefore, failure to comply with the Sas, and especially the unconditionally mandatory Requirements portion thereof (where the Sas use the word "shall") would amount to not only failure to exercise due diligence, but could also be gross negligence depending upon the facts and circumstances. The touchstone for judging professional misconduct, however, always remains the compliance with the Sas. As far as the PIEs, whose audits are under the remit of NFRA, are

concerned, the duty cast upon auditors by the Sas is a statutory duty, as explained earlier. The auditor is also required to maintain an attitude of professional skepticism which is defined as "an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence" (Para 13(l) of SA 200). It also includes "questioning contradictory audit evidence and the reliability of documents and responses to inquiries and other information obtained from management and those charged with governance" (Para A20 of SA 200). Such professional behaviour mandated by the Sas is absent on the part of the CA in this case.

21. The charges against CA Gulshan Jagadish Jham and NFRA's findings are given below:

a. CA Gulshan Jham committed professional misconduct as defined by Section 132 (4) of the Companies Act, read with section 22 of the Chartered Accountants Act 1949 (no. 38 of 1949) and clause 5 of Part 1 of the Second Schedule to the said Act, which states that a CA 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 CA failed to disclose in his report the material non-compliances the Company made, as explained in paras 16 to 20 above. The CA has also admitted the charge.

b. CA Gulshan Jham committed professional misconduct as defined by Section 132 (4) of the Companies Act, read with section 22 of the Chartered Accountants Act 1949 (no. 38 of 1949) and clause 6 of Part 1 of the Second Schedule to the said Act, which states that a CA 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 CA failed to disclose in his report the material misstatements made by the Company in the areas of debtors, loans and advances, property plant and equipment, inventory and other account balances as explained in the paras 16 to 20 above. The CA has also admitted the charge.

c. CA Gulshan Jham committed professional misconduct as defined by Section 132 (4) of the Companies Act, read with section 22 of the Chartered Accountants Act 1949 (no. 38 of 1949) and clause 7 of Part 1 of the Second Schedule to the said Act, which states that a CA is guilty of professional misconduct when he "does not exercise due diligence or is grossly negligent in the conduct of his professional duties".

This charge is proved as the CA failed to conduct the audit in accordance with the SAs and applicable regulations as well as due to his total failure to report the material misstatements and non-compliances made by the Company in the financial statements, as explained in the paras 16 to 20 above. The CA has also admitted the charge.

d. CA Gulshan Jham committed professional misconduct as defined by Section 132 (4) of the Companies Act, read with section 22 of the Chartered Accountants Act 1949 (no. 38 of 1949) and clause 8 of Part 1 of the Second Schedule to the said Act, which states that a CA 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 CA failed to conduct the audit in accordance with the SAs and applicable regulations as well as due to his total failure to report the material misstatements and non-compliances made by the Company in the financial statements, as explained in the paras 16 to 20 above. The CA has also admitted the charge.

e. CA Gulshan Jham committed professional misconduct as defined by Section 132 (4) of the Companies Act, read with section 22 of the Chartered Accountants Act 1949 (no. 38 of 1949) and clause 9 of Part 1 of the Second Schedule to the said Act, which states that a CA 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 CA failed to conduct the audit in accordance with the SAs (as explained in paras 16 to 20 above) but falsely reported in his audit report that the audit was conducted as per SAs. The CA has also admitted the charge.

22. Therefore, NFRA concludes that all the charges of professional misconduct in the SCN stand proved based on the evidence in the Audit File, the Audit Report dated6th July 2020 issued by the CA, the submissions made by the CA, the submissions made by the Company, the annual report of PSIL for the FY 2020, and the FRQRR published by NFRA.

D. PENALTY

23. According to Sec 132(4)(c) of the Companies Act, 2013, in a case where professional or other misconduct is proved, the NFRA shall have the power to make an order for-

    a. Imposing a penalty of not less than one lakh rupees, but which may extend to five times the fees received, in the case of individuals; and

    b. Debarring the member from 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 for a minimum period of six months or such higher period not exceeding ten years as may be determined by the NFRA.

24. The seriousness with which the Companies Act views proved cases of professional misconduct is evident from the fact that a minimum punishment is laid down by the law.

25. Several factors go into determining what is the appropriate penalty in any case of professional misconduct. These are discussed below with specific reference to the proven facts of this case.

    a. **Compliance with SAs and Maintenance of Audit Quality**

    CA Gulshan Jham is a qualified professional but the serious non-compliances of the Companies Act and Standards on Auditing on his part have been not what was expected from him as the Auditor. The primary function of the Auditor is to achieve the necessary audit quality and compliance with SAs. The charges proved have shown the failure of the CA to discharge this duty. A critical, questioning attitude, an unwillingness to be satisfied by merely superficial explanations, not concluding on material matters without rigorous verification from more than one angle, diligent and methodical cross verification, proper planning and the meticulous execution of the audit plan etc are fundamental to audit quality. The audit of this listed Company has been done by the CA most casually with no regard to the law, and professional and ethical standards. The CA has failed in his duties as the auditor.

    b. **Promotion of Public and Investor confidence and Effectiveness in Deterring Auditors and Audit Firms from violating the applicable Accounting and Auditing Standards**

    Audited financial statements are the basic inputs for innumerable transactions in the economy. A breakdown, or severe damage, to the trust and confidence that the public and investors have in financial statements, would have ramifications that go far beyond the limited activities of an auditee company. As professionals, auditors are expected to judge the significance of the operations of the entity they audit for the larger financial and economic sectors and accordingly calibrate their approach and procedures. The auditor's duty of exercising due diligence is owed to the users of the financial statements. The ICAI Framework for the Preparation and Presentation of Financial Statements in accordance with Indian Accounting Standards says the following about the Users of Financial Information. *"The users of financial statements include present and potential investors, employees, lenders, suppliers and other trade creditors, customers, governments and their agencies and the public"*. The management of the entity is specifically excluded from the set of users. The stated purpose of financial statements as per the ICAI Framework for the Preparation and Presentation of Financial Statements is to "…… *provide information about the financial position, performance and cash flows of an entity that is useful to a wide range of users in making economic decisions"*. "Due diligence" is required to meet the information needs of these users. Where the auditors have shown to be not diligent in considering these factors, appropriate penalties would follow that should be effective, proportionate and dissuasive. It is also essential that the penalty imposed has a suitable deterrent effect on other auditors and, at the same time, sends out a message to the Public and the Investor Community that such misconduct will not be allowed to escape lightly.

c. Nature and size of the Audit Firm.

The CA in this case is a very small proprietorship firm not having any other listed company audit. Based on the principle of proportionality, the sanctions are being made keeping in mind the nature and size of the audit firm and the fact that he has accepted all the charges.

SANCTIONS

26. Considering the fact that professional misconduct has been proved and considering the nature of violations and principles of proportionality, the NFRA, in the exercise of its powers under Section 132(4)(c) of the Companies Act, 2013 orders:

    (i) Imposition of a monetary penalty of **Rs 100,000 (One Lakh only)** upon CA Gulshan Jagdish Jham.

    (ii) In addition, CA Gulshan Jadish Jham is debarred for **one year** from 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.

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

Sd/-
(Dr Ajay Bhushan Prasad Pandey)
Chairperson

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

Sd/-
(Smita Jhingran)
Full-Time Member

Authorised for Issue by the National Financial Reporting Authority

Rakesh Bhanot
Secretary (NFRA)

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

Date: 21.6.2022
Place: New Delhi.

To,
CA Gulshan Jagdish Jham, (ICAI Membership No 408315),
Proprietor, Gulshan Jagdish Jham, Chartered Accountants,
C/o Preetam Vastrayala, Opposite Railway Station,
Seoni Road, Chhindwara - 480002, Madhya Pradesh, India.
Email: gulshanjham@yahoo.co.in

Copy To

(i) Secretary, Ministry of Corporate Affairs, Government of India
(ii) Securities and Exchange Board of India
(iii) Institute of Chartered Accountants of India
(iv) The website of NFRA

APPENDIX

Details of facts and articles of charges as per SCN.

1.0 **Actions/Omissions leading to professional misconduct in relation to failure to report non-compliance with applicable financial reporting framework and lack of consideration of laws & regulations during the audit (reference: FRQRR)**

1.1 PSIL is a company listed on a stock exchange (the Bombay Stock Exchange) in India and therefore, as per Rule 4 of the Companies (Indian Accounting Standards) Rules, 2015, it is required to comply with the Indian Accounting Standards (Ind AS) prescribed under these rules for the preparation and presentation of its annual financial statements.

1.2 NFRA has observed that the opinion part of the Independent Auditor's Report states that –

*"In our opinion and to the best of our information and according to the explanations given to us, **the aforesaid financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India**, of the state of affairs of the Company as at March 31, 2020, and of profit, changes in equity and its cash flows for the year ended on that date."*

1.3 However, the company has not followed the provisions of the Companies Act,2013 regarding the preparation and presentation of Financial Statements (Details and Facts are as explained in FRQRR). The prominent violations by PSIL are:

a) The Company is a Listed Company and therefore, according to the Companies (Indian Accounting Standards) Rules 2015 (hereinafter referred to as Indian Accounting Standards Framework) it is required to follow the Indian Accounting Standards notified under the Companies (Indian Accounting Standards) Rules 2015. However, the Directors' Report states the Company has followed Accounting Standards (AS) issued by the Institute of Chartered Accountants of India whereas the Notes to Annual Accounts state the Financial Statements are prepared in compliance with the Indian Accounting Standards notified under Section 133 of the Companies Act, 2013. The disclosures at several places are made in accordance with the Companies (Accounting Standards) Rules 2006, which Framework is no longer applicable to the Company.

b) The Company failed to present a Statement of Changes in Equity in the Financial Statements as required by subsection 40 of Section 2 of the Companies Act,2013, Indian Accounting Standard (Ind AS) 1 - Presentation of Financial Statements, and Schedule III to the CA, 201 Companies Act,2013.

c) The Company also failed to prepare Consolidated Financial Statements as required by Section 129(3) of the Companies Act,2013 though it has disclosed certain companies as Associate Companies in the Financial Statements.

d) Because of the explicit requirements of Indian Ind AS 109, Financial Instruments, the Company was required to consider all the factors in the recognition and measurement of impairment loss based on expected credit loss approach for Trade Receivables, Loans and Advances and Bank Balances. The full amount of Trade Receivables and Loans and Advances of the Company are unsecured and Bank balances are with non-scheduled lesser-known Banks. Thus, it becomes even more necessary to assess the credit risk holistically as required by the principles of Ind AS 109. However, the Company has not done a proper evaluation of impairment loss allowance for these Financial Assets.

e) Disclosures as required by Paragraphs 45, 46 and 48 of Ind AS 7, Statement of Cash Flows, have not been made by the Company. Thus, the Financial Statements of the Company do not comply with Ind AS 7.

f) Disclosures prescribed by Ind AS 107, Financial Instruments: Disclosures, have not been made by the Company.

g) Disclosures relating to fair value measurement prescribed by Ind AS 113, Fair Value Measurement, have not been made by the Company.

h) PSIL's Annual Financial Statements do not comply with the statutory disclosure requirements specified in Division II of Schedule III to the Companies Act, 2013 in respect of the Financial Assets reported in the form of loans and advances.

i) The Company has violated Ind AS 16, Property, Plant and, in the preparation of Financial Statements by not providing for required depreciation on plant and machinery.

j) Apart from the above, the Company has made violations of the Companies Act, 2013 and applicable Ind AS provisions in almost all the areas of accounting as detailed in Part B of the FRQRR.

1.4 PSIL in its letter dated 25th January 2022 (Appendix 4) has noted all the issues/observations reported by NFRA in the FRQRR and requested 90 days to restate Financial Statements for the Financial Year 2019-20 and to get it re-audited.

1.5 Despite the failure to present the statement of changes in equity, the CA in his audit report states that "We have audited the accompanying financial statements of PRABHU STEEL INDUSTRIES LIMITED ("the company" bearing Corporate Identification No. L28100MH1972PLC015817), which comprise the Balance Sheet as at 31st March 2020, the Statement of Profit and Loss, The Statement of Cash Flow & The Statement of Changes in Equity for the year then ended, and a summary of the significant accounting policies and other explanatory information"

1.6 Notwithstanding the above violations, the CA in his independent auditor's report further states that the financial statements give the information required by the Companies Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India. He also falsely certified that the financial statements comply with the Accounting Standards specified under Section 133 of the Companies Act, read with Rule 7 of the Companies (Accounts) Rules, 2014.

1.7 There is no evidence in the Audit File to support the above statements in the Audit Report. The FRQRR explains with reasons that the financial statements do not give a true and fair view of the state of affairs of the Company. Thus, the independent auditor's report is false, misleading, and made without any basis.

1.8 Consequently, the auditor has also violated the following provisions of the Standards on Auditing-

(i) **Para 3 of Standard on Auditing (SA) 200** - *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing* states:

The purpose of an audit is to enhance the degree of confidence of intended users in the financial statements. This is achieved by the expression of an opinion by the auditor on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework. In the case of most general-purpose frameworks, that opinion is on whether the financial statements are presented fairly, in all material respects, or give a true and fair view in accordance with the framework. An audit conducted in accordance with SAs and relevant ethical requirements enables the auditor to form that opinion.

(ii) **Para 6 of Standard on Auditing (SA) 210** - *Agreeing the Terms of Audit Engagements* states-

In order to establish whether the preconditions for an audit are present, the auditor shall:
(a) Determine whether the financial reporting framework to be applied in the preparation of the financial statements is acceptable; and
(b) Obtain the agreement of management that it acknowledges and understands its responsibility
(i) For the preparation of the financial statements in accordance with the applicable financial reporting framework, including where relevant their fair presentation;

(iii) **Para 13 of Standard on Auditing (SA) 250** – *Consideration of Laws and Regulations in an Audit of Financial Statement*s states –

The auditor shall obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial statements.

(iv) **Para 14 of Standard on Auditing (SA) 250** – *Consideration of Laws and Regulations in an Audit of Financial Statement*s states –

The auditor shall perform the following audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements:
(a) Inquiring of management and, where appropriate, those charged with governance, as to whether the entity is in compliance with such laws and regulations; and

(v) **Para 12 of Standard on Auditing (SA) 700** – *Forming an Opinion and Reporting on Financial Statements* states-

The auditor shall evaluate whether the financial statements are prepared, in all material respects, in accordance with the requirements of the applicable financial reporting framework. This evaluation shall include consideration of the qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments

(vi) **Para 13 of Standard on Auditing (SA) 700 –** *In particular, the auditor shall evaluate whether, in view of the requirements of the applicable financial reporting framework:*

(a) The financial statements adequately disclose the significant accounting policies selected and applied;
(b) The accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate;
(c) The accounting estimates made by management are reasonable;
(d) The information presented in the financial statements is relevant, reliable, comparable, and understandable;
(e) The financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the financial statements; and
(f) The terminology used in the financial statements, including the title of each financial statement, is appropriate.

(vii) **Para 14 of Standard on Auditing (SA) 700 -** *When the financial statements are prepared in accordance with a fair presentation framework, the evaluation required by paragraphs 12–13 shall also include whether the financial statements achieve fair presentation. The auditor's evaluation as to whether the financial statements achieve fair presentation shall include consideration of:*

(a) The overall presentation, structure and content of the financial statements; and
(b) Whether the financial statements, including the related notes, represent the underlying transactions and events in a manner that achieves fair presentation

(viii) **Para 15 of Standard on Auditing (SA) 700 -** *The auditor shall evaluate whether the financial statements adequately refer to or describe the applicable financial reporting framework.*

(ix) **Para 16 of Standard on Auditing (SA) 700 -** *The auditor shall express an unmodified opinion when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.*

1.9 It was the duty of the Auditor, CA Gulshan Jham to comply with the provisions of SA 200 and SA 210 regarding the acceptability of applicable financial reporting framework and compliance with the same, SA 250 regarding compliance with Laws and Regulations and SA 700 regarding expressing his opinion on the true and fair view of Financial Statements. Notwithstanding these non-compliances, the CA in his audit report falsely states that the audit is conducted in accordance with the SAs.

1.10 Because of the above actions/omissions, the CA is guilty of professional misconduct arising out of false reporting, gross violations of the Companies Act, 2013, the Standards of Auditing and the Code of Ethics.

1.11 The above actions of the CA, therefore, amount to professional misconduct of failure to:

a) 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

b) report a material misstatement known to them to appear in a financial statement with which the CA is concerned in a professional capacity,

c) exercise due diligence, and being grossly negligent in the conduct of professional duties,

d) 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) invite attention to any material departure from the generally accepted procedure of audit applicable to the circumstances.

2.0 **Actions/Omissions leading to professional misconduct in relation to other non-compliances of Auditing Standards**

2.1 NFRA had sought the Audit Files from CA Gulshan Jham via e-mail on 22nd June 2021. In response to the mail, CA Gulshan Jham had provided the audit file via e- mail on 05th August 2021.

2.2 The e-mail from CA Gulshan Jham Contains –

(i) 42 audit files work papers numbered 1 to 20 (in PDF Form)

(ii) Annexures 2 & 3 as required by NFRA (in PDF form) and

(iii) Policy document as per SQC 1 (in PDF Form)

The audit file is attached with this SCN in Appendix 2.

2.3 NFRA has examined the audit files to verify the audit procedures. These audit files contain documents that purport to be concerning verification of some of the account balances and transactions in the financial statement. NFRA has observed violations of various Standards on Auditing as detailed below.

2.4 **Requirement of Standard on Auditing (SA) 230** *Audit Documentation* –

(i) **Para 8 of SA 230** states-

The auditor shall prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand:
(a) The nature, timing, and extent of the audit procedures performed to comply with the SAs and applicable legal and regulatory requirements;
(b) The results of the audit procedures performed, and the audit evidence obtained; and
(c) Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those

conclusions.

Para 10 of SA 230 states- *The auditor shall document discussions of significant matters with management, those charged with governance, and others, including the nature of the significant matters discussed and when and with whom the discussions took place.*

(ii) As per the standard, the auditor should have documented the nature, timing and extent of audit procedures performed, results of those audit procedures, conclusions reached during the audit. Also, the audit documents should contain evidence of communications with those charged with governance about significant matters concerning the audit.

(iii) NFRA has observed the audit documentation done by the Auditor does not contain any detail as stated in point (i and ii) above. This amounts to a violation of SA 230.

2.5 **Engagement Quality Control Review (EQCR) Requirement**

(i) **Standard on Auditing (SA) 220** *Quality control for an Audit of Financial Statements* – Para 19 states-

For audits of financial statements of listed entities, and those other audit engagements, if any, for which the firm has determined that an engagement quality control review is required, the engagement partner shall:
(a) Determine that an engagement quality control reviewer has been appointed;
(b) Discuss significant matters arising during the audit engagement, including those identified during the engagement quality control review, with the engagement quality control reviewer; and
(c) Not date the auditor's report until the completion of the engagement quality control review

(ii) **Standard on Quality Control (SQC) 1** *Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements* – Para 60 states-

The firm should establish policies and procedures requiring, for appropriate engagements, an engagement quality control review that provides an objective evaluation of the significant judgments made by the engagement team and the conclusions reached in formulating the report. Such policies and procedures should:

(a) Require an engagement quality control review for all audits of financial statements of listed entities;

(b) Set out criteria against which all other audits and reviews of historical financial information, and other assurance and related services engagements should be evaluated to determine whether an engagement quality control review should be performed; and

(c) Require an engagement quality control review for all engagements meeting the criteria established in compliance with subparagraph (b).

(iii) **Para 92 of (SQC) 1,** states - *small firms and sole practitioners may wish to* *use a suitably qualified external person or another firm to carry out engagement inspections and other monitoring procedures. Alternatively, they may wish to establish arrangements to share resources with other appropriate organizations to facilitate monitoring activities*

(iv) According to the above requirements of the SAs, the audit of PSIL requires engagement quality control review (EQCR) as PSIL is a listed entity.

(v) NFRA has observed that no such EQCR was conducted during the audit of PSIL which is a violation of SA 220 and SQC 1.

2.6 **Requirement of Standard on Auditing (SA) 260** – *Communication with those charged with Governance (TCWG)-*

(i) **Para 11 of SA 260** states that- *The auditor shall determine the appropriate person(s) within the entity's governance structure with whom to communicate*

(ii) **Para 14 of SA 260** states that- *The auditor shall communicate with those charged with governance the responsibilities of the auditor in relation to the financial statement audit, including that:*

(a) The auditor is responsible for forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance; and
(b) The audit of the financial statements does not relieve management or those charged with governance of their responsibilities

(iii) Para 15 of SA 260 states that- *The auditor shall communicate with those charged with governance an overview of the planned scope and timing of the audit, which includes communicating about the significant risks identified by the auditor*

(iv) Para 16 of SA 260 states that- *The auditor shall communicate with those charged with governance:*

(a) The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures. When applicable, the auditor shall explain to those charged with governance why the auditor considers a significant accounting practice, that is acceptable under the applicable financial reporting framework, not to be most appropriate to the particular circumstances of the entity;
(b) Significant difficulties, if any, encountered during the audit;
(c) Unless all of those charged with governance are involved in managing the entity:
(i) Significant matters, arising during the audit that were discussed, or subject to correspondence, with management; and
(ii) Written representations the auditor is requesting; and
(d) Circumstances that affect the form and content of the auditor's report, if any; and
(e) Any other significant matters arising from the audit that, in the auditor's professional judgment, are relevant to the oversight of the financial reporting process.

(v) **Para 17 of SA 260** states that- ***In the case of listed entities***, *the auditor shall communicate with those charged with governance*

(a) A statement that the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms have complied with relevant ethical requirements regarding independence; and
(b) (i) All relationships and other matters between the firm, network firms, and the entity that, in the auditor's professional judgment, may reasonably be thought to bear on independence. This shall include total fees charged during the period covered by the financial statements for audit and non-audit services provided by the firm and network firms to the entity and components controlled by the entity. These fees shall be allocated to categories that are appropriate to assist those charged with governance in assessing the effect of services on the independence of the auditor; and
(ii) The related safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level.

(vi) **Para 23 of SA 260** states that- *Where matters required by this SA to be communicated are communicated orally, the auditor shall document them, and when and to whom they were communicated. Where matters have been communicated in writing, the auditor shall retain a copy of the communication as part of the audit documentation*

(vii) NFRA has examined the audit file of the CA wherein no documentary evidence in respect of any communication between the auditor and TCWG as per the above requirements f the SAs has been found.

(viii) The auditor has, therefore, failed to comply with the requirements of SA 260 about communication with TCWG.

(ix) Because of the absence of identification of, and communication with, the TCWG, no provisions of SA 265 *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management* has been complied with.

2.7 **Requirement of Standard on Auditing (SA) 300** *Planning an Audit of Financial Statements-*

(i) **Para 5 of SA 300** states - *The auditor shall undertake the following activities at the beginning of the current audit engagement:*

(a) Performing procedures required by SA 2201, "Quality Control for an Audit of Financial Statements" regarding the continuance of the client relationship and the specific audit engagement;
(b) Evaluating compliance with ethical requirements, including independence, as required by SA 2202; and
(c) Establishing an understanding of the terms of the engagement, as required by SA 2103.

(ii) **Para 6 of SA 300** states - *The auditor shall establish an overall audit strategy that sets the scope, timing and direction of the audit, and that guides the development of the audit plan.*

(iii) There is no documentary proof of an audit plan and audit strategy available in the Audit Fiel. There is no proof to show compliance with para 5 of SA 300. Thus the CA did not comply with SA 300.

2.8 **Requirement of Standard on Auditing (SA) 315** *Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment-*

(i) **Para 5 of SA 315** states - *The auditor shall perform risk assessment procedures to provide a basis for the identification and assessment of risks of material misstatement at the financial statement and assertion levels. Risk assessment procedures by themselves, however, do not provide sufficient appropriate audit evidence on which to base the audit opinion*

(ii) **Para 6 of SA 315** states - *The risk assessment procedures shall include the following:*

(a) Inquiries of management, of appropriate individuals within the internal audit function (if the function exists), and of others within the entity who in the auditor's judgment may have information that is likely to assist in identifying risks of material misstatement due to fraud or error.
(b) Analytical procedures.
(c) Observation and inspection.

(iii) There is no audit evidence of carrying out any risk assessment procedure that was required to be done as per SA 315. Therefore, the CA did not comply with SA 315.

2.9 **Requirement of Standard on Auditing (SA) 320** *Materiality in planning and performing an Audit-*

(i) **Para 10 of SA 320** states - *When establishing the overall audit strategy, the auditor shall determine materiality for the financial statements as a whole. If, in the specific circumstances of the entity, there is one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than the materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements, the auditor shall also determine the materiality level or levels to be applied to those particular classes of transactions, account balances or disclosures.*

(ii) **Para 11 of SA 320** states - *The auditor shall determine performance materiality for purposes of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures*

(iii) The audit file did not contain any audit document determining materiality levels as specified in Para 10 and 11 of SA 320. Therefore, there is non-compliance with SA 320 by the Auditor.

2.10 **Requirement of Standard on Auditing (SA) 330** *The Auditor's responses to assessed risks*

(i) Para 1 (scope of SA 330) states - *This Standard on Auditing (SA) deals with the auditor's responsibility to design and implement responses to the risks of material misstatement identified and assessed by the auditor in accordance with SA 315, "Identifying and Assessing Risks of Material Misstatement*

Through Understanding the Entity and Its Environment" in a financial statement audit.

(ii) As stated in para 2.8 (iii), there is no assessment of any risk of material misstatement as per SA 315, consequently, there is non-compliance of SA 330 as well.

2.11 **Requirement of Standard on Auditing (SA) 450** *Evaluation of Misstatements Identified During the Audit*

(i) **Para 5 of SA 450** states - *The auditor shall accumulate misstatements identified during the audit, other than those that are clearly trivial.*

(ii) No document containing any information on any identified misstatement is found in the Audit File, although there are misstatements in the financial statements as discussed in Para 1 above.

(iii) Thus the CA did not comply with SA 450.

2.12 **Requirement of Standard on Auditing (SA) 500** *Audit Evidence-*

(i) **Para 6 of SA 500** states - *The auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence*

(ii) There is no evidence available in the Audit File to show that the Auditor has complied with the requirements of Para 6 of SA 500.

2.13 **Requirement of Standard on Auditing (SA) 505** *External Confirmations* –

(i) **Para 7 of SA 505** states - *When using external confirmation procedures, the auditor shall maintain control over external confirmation requests, including:*
(a) Determining the information to be confirmed or requested;

(b) Selecting the appropriate confirming party;
(c) Designing the confirmation requests, including determining that requests are properly addressed and contain return information for responses to be sent directly to the auditor; and
(d) Sending the requests, including follow-up requests when applicable, to the confirming party.

(ii) In the audit file, Working Papers no. 2A to 2D and No. 10 relates to confirmations from external parties.

(iii) The audit evidence in Working Papers 2A to 2D and 10 are not sufficient and appropriate as there is no basis on which the information is confirmed and there is no proof that the confirmations have been received by the auditor directly from an external source.

(iv) Therefore, the Auditor has failed to comply with SA 505.

2.14 **Requirement of Standard on Auditing (SA) 520** *Analytical Procedures* –

(i) **Para 6 of SA 530** states- *The auditor shall design and perform analytical procedures near the end of the audit that assist the auditor when forming an overall conclusion as to whether the financial statements are consistent with* *the auditor's understanding of the entity.*

(ii) Appendix to SA 520 gives a list of Analytical Procedures to be carried out. It includes trend analysis, test of reasonableness, ratio analysis and confirmation of sources of information.

(iii) There is no evidence in the Audit Foel to show that analytical procedures have been carried out by the auditor while forming an overall conclusion on the financial statements.

(iv) Therefore, the Auditor has failed to comply with SA 520.

2.15 **Requirement of Standard on Auditing (SA) 530** *Audit Sampling –*

(i) **Para 4 of SA 530** states - *The objective of the auditor when using audit sampling is to provide a reasonable basis for the auditor to draw conclusions about the population from which the sample is selected.* (Audit Sample here refers to the application of audit procedures to less than 100% of items within a population of audit relevance such that all sampling units have a chance of selection in order to provide the auditor with a reasonable basis on which to draw conclusions about the entire population, as defined in Para 5(a) of SA 530)

(ii) **Para 6 to 8 of SA 530** states-

a) Para 6 – *"When designing an audit sample, the auditor shall consider the purpose of the audit procedure and the characteristics of the population from which the sample will be drawn."*
b) Para 7 – *"The auditor shall determine a sample size sufficient to reduce sampling risk to an acceptably low level."*
c) Para 8 – *"The auditor shall select items for the sample in such a way that each sampling unit in the population has a chance of selection."*

(iii) The audit has been carried out on a sample basis. For instance, it is mentioned in audit work paper document no. 20 "Audit Checklist" that "all materials included in stock ***has been checked on sample basis" (emphasis added)***. However, there are no Working Paper (WP) that was prepared during the audit to provide a reasonable basis to conclude the population from which the sample is selected. There is no basis for the selection of the sample as required by the SAs.

(iv) Thus the auditor has failed to perform the audit procedure as specified in SA 530.

2.16 **Requirement of Standard on Auditing (SA) 550** *Related Parties*

(i) **Para 3 of SA 550** states - *Because related parties are not independent of each other, many financial reporting frameworks establish specific accounting and disclosure requirements for related party relationships, transactions and balances to enable users of the financial statements to understand their nature and actual or potential effects on the financial statements. Where the applicable financial reporting framework establishes such requirements, the auditor has a* *responsibility to perform audit procedures to identify, assess and respond to the risks of material misstatement arising from the entity's failure to appropriately account for or disclose related party relationships, transactions or balances in accordance with the requirements of the framework.*

(ii) **Para 4 of SA 550** states- *Even if the applicable financial reporting framework establishes minimal or no related party requirements, the auditor nevertheless needs to obtain an understanding of the entity's related party relationships and transactions sufficient to be able to conclude whether the financial statements, insofar as they are affected by those relationships and transactions:*

(a) Achieve a true and fair presentation (for fair presentation frameworks); or
(b) Are not misleading (for compliance frameworks)

(iii) PSIL has stated in its annual report that Haryana Metals Ltd as an associate company (Matters and facts are discussed in Para 2.4 of FRQRR)

(iv) No audit procedure concerning related parties as specified in SA 550 has been done by the auditor. Thus the CA did not comply with SA 550.

2.17 **Requirement of Standard on Auditing (SA) 580** *Written Representation*

(i) **Para 8 of SA 580** states - *The auditor shall request written representations from management with appropriate responsibilities for the financial statements and knowledge of the matters concerned.*

(ii) **Para 9 of SA 580** states - *The auditor shall request management to provide a written representation that it has fulfilled its responsibility for the preparation of the financial statements in accordance with the applicable financial reporting framework, including where relevant their fair presentation, as set out in the terms of the audit engagement.*

(iii) **Para 10 of SA 580** states - *The auditor shall request management to provide a written representation that:*

(a) It has provided the auditor with all relevant information and access as agreed in the terms of the audit engagement, and
(b) All transactions have been recorded and are reflected in the financial statements.

(iv) No written representation from the management or TCWG has been found in the Audit File. Thus the CA did not comply with SA 580.

2.18 **Requirement of Standard on Auditing (SA) 705** *Modifications to the Opinion in the Independent Auditor's Report*

(i) **Para 6 of SA 705** states - *The auditor shall modify the opinion in the auditor's report when:*

(a) The auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or
(b) The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.

(ii) As detailed in FRQRR the financial statements of PSIL did not comply with the applicable financial reporting framework. The said financial statements are not free from material misstatements as explained in the FRQR. However, the auditor has given an unmodified opinion in his audit report. Thus the CA did not comply with SA 705.

2.19 **Requirement of Standard on Auditing (SA)** SA 240 – The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

(i) Para 19 of SA 240 states - For those entities that have an internal audit function, the auditor shall make inquiries of internal audit to determine whether it has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud.

(ii) However, there are no documents in the Audit File evidencing that the CA has made inquiries about the internal audit function of PSIL. There is not even a mention of the Internal Audit function in the Audit File. Thus the CA did not comply with SA 240.

2.20 As discussed in paras 2.4 to 2.19 above, the Auditor, CA Gulshan Jham has failed to comply with requirements of SA 230, SA 220, SQC 1, SA 240, SA 260, SA 300, SA 315, SA 320, SA 330, SA 450, SA 500, SA 505, SA 520, SA 530, SA 550, SA 580 and SA 705.

2.21 The instances of non-compliance with the requirements of SAs are of such significance that the Auditor did not have adequate justification for issuing the audit report asserting that the audit was conducted in accordance with the SAs.

2.22 Despite these instances of wholesale violations of and non-compliance with the SA, the Auditor has issued a clean Audit Report, asserting that the audit was conducted in accordance with the SAs. This shows gross negligence, absence of due diligence and false reporting by the CA.

2.23 The above actions of the CA, therefore, amount to professional misconduct of failure to:

a) exercise due diligence, and being grossly negligent in the conduct of professional duties, and

b) invite attention to any material departure from the generally accepted procedure of audit applicable to the circumstances.