भारत सरकार / Government of India

राष्ट्रीय वित्तीय रिपोर्टिंग प्राधिकरण /National Financial Reporting Authority

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

No. 20012/2/2022 Date: 21.04.2023

ORDER

In the matter of CA Naresh Kumar (ICAI Membership No. 085238) under Section 132(4) of the Companies Act 2013 read with Rule 11(6) of National Financial Reporting Authority Rules 2018.

1. This Order disposes of the Show Cause Notice ('SCN' hereafter) of even no. dated 20th October 2022, issued to CA Naresh Kumar, partner of M/s Oswal Sunil & Company (ICAI Firm Registration No. 016520N), Delhi and the Engagement Partner ('EP' or the 'Auditor' hereafter) for the statutory audit of SRS Ltd ('the company' hereafter) for the Financial Year ('FY' hereafter) 2017-18.

2. This Order is divided into the following sections:

   A. Executive Summary

   B. Introduction & Background

   C. Major Lapses in the Audit

   D. Other Lapses in the Audit

   E. Articles of Charges of Professional Misconduct

   F. Penalty and Sanctions

A. EXECUTIVE SUMMARY

3. The National Financial Reporting Authority (NFRA hereafter) is India's independent regulator in respect of matters relating to accounting and auditing of prescribed class[1] of entities which can be broadly described as 'Public Interest Entities' (PIEs hereafter).

4. Following a letter received from the Serious Fraud Investigation Office (SFIO hereafter), Government of India, which had investigated into the affairs of SRS Ltd and its group companies, NFRA initiated action under Section 132(4) of the Companies Act (hereafter the Act) for investigating into professional or other misconduct of the statutory auditors of SRS Limited. SRS Ltd, a listed entity, is one of the companies within the SRS Group, which is in the business of Jewellery, Cinema, Real Estate, Financial Services etc. The SRS Ltd. went into Corporate Insolvency Resolution Process (CIRP hereafter) by an order dated 21.08.2018 of the Hon. National Company Law Tribunal (NCLT hereafter), Chandigarh Bench.

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[1] Rule 3 of NFRA Rules, 2018

5. M/s Oswal Sunil & Company (The Firm hereafter) was the Joint Statutory Auditor of SRS Limited for the FY 2017-18 and CA Naresh Kumar was the EP for this audit, being responsible for audit of 60.29% of the total assets of the company. This Firm and the EP were also the Joint Statutory Auditor of SRS Limited for the FY 2016-17 and had issued a qualified opinion. They were also engaged for limited review of the quarterly financial results (Interim Financial Results), required to be published as per SEBI LODR Regulations 2015, during the FY 2017-18 and had consistently issued 'Qualified' opinion on those financial results in spite of serious issues and questions regarding recoverability of trade receivables of overseas division, compliance with the provision of the Act relating to creation of Deposit Repayments Reserves and decline in the net worth due to write off of huge amount of trade receivables in the review report for Q3 of FY 2017-18.

6. Based on the perusal of the issues raised in the SFIO report and the preliminary examination of the financial statements of SRS Ltd., it was observed that there was a prima facie case for investigation and/or further action by the NFRA. The EP and the Audit Firm were instructed on 18.07.2022 to submit the Audit File and, based on its examination, an SCN dated 20.10.2022 identifying failures and negligences was issued to the EP in terms of Rule 11 of the NFRA Rules, 2018. In the interest of natural justice, the EP was also given a personal hearing on 02.02.2023.

7. The Audit lapses identified as a result of examination of the Audit File, related material on record and the personal hearing conducted, have been cetegorized into major lapses and other lapses and are discused in section C and D respectively of this Order. These lapses relate to the EP's failure to identify and report material mistatements in the financial statements, standard of audit work performed falling way below the mandatory standards prescribed under the Act and required of an auditor of a Public Interest Entity (PIE). The EP's opinion that the financial statements reflected 'true and fair view' in accordance with accounting principles generally accepted in India and the provisions of the Act was found to be not supported by the appropriate audit evidence. The manner in which the audit 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 a serious lack of competence on the part of the EP.

8. The Order details how the EP ignored, during the course of the audit, several indicators of potential fraudulent transactions he was privy to such as unusually high provision for bad/doubtful debts in respect of trade receivables of ₹1,295.01 crores (99.85% of the total trade receivables), and substantial decline of ₹ 207.74 crores in the carrying amount of the inventories. However, the auditor failed to review these abnormal events for reporting under section 143 (12) of the Act, choosing to report only ₹ 10-11 crores of fraudulent transactions, which had already been reported by the company to stock exchanges.

9. The EP failed to demonstrate sufficiency and appropriateness of audit work in virtually every aspect of the audit of the financial statements i.e., Audit Strategy, Planning, Determining Materiality, Assessment of Risk of Material Misstatement and evaluating the audit results. The EP also failed to demonstrate compliance with the requirement of the Standards on Auditing concerning the Engagement Quality Control Review (EQCR) and submitted false information on the appointment of an EQCR who denied having played any such role.

10. The EP also ignored a number of indicators pointing to the abnormal state of affairs in the Company having adverse implications for the true and fair view of financial statements. The

EP failed to display professional scepticism and due diligence in forming his audit opinion in accordance with SA 570.

11. Finding him guilty of professional misconduct, this Order imposes on the EP, CA Naresh Kumar a monetary penalty of ₹ 300,000/- (Rupees Three Lakhs); and debars him for 3 (Three) 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

12. The National Financial Reporting Authority ('NFRA' hereafter) is a statutory authority set up u/s 132 of the Companies Act 2013 to monitor 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 is empowered u/s 132 (4) of the Act to investigate into professional or other misconduct committed by any member or firm of chartered accountants in respect of the prescribed classes of bodies corporate or persons, to exercise the powers vested in a civil court while trying a suit and impose penalty for professional or other misconduct of the individual members or firms of chartered accountants.

13. 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 (EP) 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' hereafter), including the Standards on Quality Control (SQC) 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.

14. NFRA received from the Serious Fraud Investigation Office (SFIO) a letter dated 31.08.2021 sharing the findings of their investigation into the affairs of SRS Ltd and the Group for necessary action against their statutory auditors. SRS Ltd is one of the companies within the SRS Group and was incorporated on 29.08.2000. SRS was a listed company and was delisted on 27.08.2021. The Group had presence in the sectors of Jewellery, Cinema, Real Estate, Financial Services etc. The investigation report by SFIO inter alia revealed that the Company and its Group Companies had presented financial statements containing false statement of debtors and indulged in the malpractice of round tripping and layering of transactions resulting in inflated purchases and sales. The company went under Corporate Insolvency Resolution Process (CIRP) by the orders of the NCLT, Chandigarh Bench dated 21.08.2018, on an application made by the State Bank of India following SRS' default on repayment of financial debt of ₹ 543.36 crores.

15. M/s Oswal Sunil & Company (Audit Firm hereafter) was the Joint Statutory Auditor of SRS Ltd for the FY 2017-18 and CA Naresh Kumar was the EP for this audit. As mentioned in the other matter section of the audit report, the Audit Firm was responsible for audit of 60.29% of the total assets of the company. They were also the Joint Statutory Auditor of SRS Limited for the FY 2016-17 and had issued a modified opinion. Also, for the FY 2017-18, they performed the limited review of quarterly financial results (Interim Financial Results), required to be published as per SEBI LODR Regulations 2015, and had consistently issued a 'Qualified'

opinion on those financial results on account of recoverability of the trade receivables of the overseas division of the Company, non-compliance with the provision of the Act relating to creation of Deposit Repayments Reserves and serious concerns about the erosion of net worth due to write off of huge amount of trade receivables in Q3 2017-18.

16. Vide letter dated 18.07.2022 NFRA called the Audit File from the EP and on his request granted extension of time for submission of the Audit File. The EP submitted the Audit File on 31.08.2022.

17. On examination of the Audit File and other relevant material available on record, and being satisfied that sufficient cause existed to take action under sub-section (4) of section 132 of the Companies Act 2013, a Show Cause Notice (SCN hereafter) was issued to CA Naresh Kumar on 20.10.2022 in terms of Rule 11 of the NFRA Rules 2018, asking him to show cause why action should not be taken against him for professional misconduct in respect of his performance as the EP on behalf of M/s Oswal Sunil & Company, the Statutory Auditor of SRS Ltd for the FY 2017-18. The EP was charged with professional misconduct of:

i. Failure 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 the CA is concerned with that financial statement in a professional capacity.
ii. Failure to report a material misstatement known to him to appear in a financial statement with which the CA is concerned in a professional capacity.
iii. Failure to exercise due diligence and being grossly negligent in the conduct of professional duties.
iv. 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.
v. Failure to invite attention to material departure from the generally accepted procedures of audit applicable to the circumstances.

18. The EP vide letter dated 19.11.2022 requested for extension of time for submission of reply and was granted extension up to 14.12.2022. The EP submitted his reply vide email dated 14.12.2022, which also contained some new working papers as additional evidence. The EP submitted that he had not been provided with full SFIO investigation report, MCA letter to SFIO and the letter of SFIO to NFRA. In this regard, it is noted that the EP had been provided as annexures to the SCN the relevant extracts of the SFIO investigation report that contained 1351 pages relating to the fraud and financial irregularities being investigated by SFIO in respect of entire SRS Group. The SCN also provided an opportunity for a personal hearing to the statutory auditor, which was availed by him on 02.02.2023.

19. We have perused all the material on record including the written and oral responses of the EP. The failures on the part of the EP to fulfil responsibilities relating to a Going Concern, Audit Documentation, EQCR and Suspected Fraud are identified as major lapses and are discussed in Part 'C' of this Order. Other lapses viz., failure to report noncompliance with Ind AS 36 Impairment of Assets, failure to Plan the Audit and Determine Materiality, and failure to comply with the requirements of Joint Audit etc., have been discussed in Part 'D' of this Order.

Part C: MAJOR LAPSES IN THE AUDIT

C.1 Lapses relating to Going Concern basis of accounting

20. The EP was charged with non-compliance with SA 570[2] which deals with auditor's responsibilities in the audit of financial statements relating to a 'Going Concern'. As on 31.03.2018, the Company had several adverse indicators in the financial statements that could raise significant doubts about the 'Going Concern' assumption. Such indicators included:

i. A net loss of ₹1,460.87 crores in the FY 2017-18 and accumulated losses of ₹ 1,384.69 crores as on 31.03.2018.
ii. Obligations towards fund-based borrowings aggregating to ₹1,007 crores and towards public deposits aggregating ₹89.03 crores.
iii. Negative net worth of ₹ 977.40 crores.
iv. Defaults in repayment of borrowings from banks amounting to ₹ 1,001.28 crores (Principal and Interest).
v. Discontinuation of many business divisions.

Despite deterioration in the financial position as indicated above, the financial statements were prepared on the assumption that the entity was a 'Going Concern' and would continue its operations for the foreseeable future.

21. In his written reply, the EP submitted that he had performed the evaluation of the management's assessment of the Going Concern; that since the company was under CIRP and Hon. NCLT, Chandigarh Bench had ordered to continue the affairs of the company as a Going Concern, the preparation of accounts as Going Concern cannot be questioned. The EP stated that "*In our opinion, Management's assessment was subject to ample doubt but there was a silver lining as evident from revenue earned in cinema division, which was quite functional during the period of RP. The Co earned revenue from operations amounting to ₹ 26.43 crore, 21.28 crore and ₹ 17.00 crore in QE 30.06.18, 30.09.18 and 31.12.18, respectively.*"

22. We have considered the reply of the EP and other relevant material on record and find that:

i. There is no evidence in the Audit File of any assessment having been made by the EP of the Going Concern assumption. Para A3 of the Application and Other Explanatory Material to SA 570 is an illustrative list of events/conditions that cast doubt on the ability of an entity to continue as a Going Concern. The conditions listed in Para 20 above should have attracted the attention of the EP for performing well documented audit procedures towards the Going Concern status, and the fact that the EP did not do so is indicative of gross negligence and lack of professional skepticism.

ii. The EP's reference to the 'Silver Lining' in the form of revenue from Cinema Division of ₹ 64.71 crores during the ensuing three quarters of 2018, in comparison to the substantially higher amount of financial liabilities of over ₹ 1,183.55 crores as on 31

[2] Standard on Auditing 570, Going Concern (SA 570)

March 2018, reflects his poor understanding of the gravity of the matter and is an attempt at rationalization of his failures.

23. The EP's reference to the order of Hon. NCLT, Chandigarh Bench is also reflective of his poor understanding of the matter. The Hon. NCLT, Chandigarh Bench had ordered[3] that "*the Directors, personnel and the persons associated with the management shall extend all cooperation to the Interim Resolution Professional in managing the affairs of the 'Corporate Debtor' as a going concern*". This order was meant for management to assist the Interim Resolution Professional (IRP) in managing the affairs of the company as a Going Concern. It is inappropriate for the Auditors to take shelter behind this order to not follow the requirements of the applicable financial reporting framework. As per the Insolvency and Bankruptcy Board of India (IBBI) circular[4] dated 03.01.2018, a corporate entity undergoing insolvency resolution process needs to comply with the provisions of the applicable laws (acts, rules and regulations, circulars, guidelines, orders, directions, etc) during such process. In fact, we notice that the EP himself had questioned the preparation of financial statements on Going Concern basis by issuing a Qualified Opinion stating that "*Conditions indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as going concern and therefore the Company may be unable to realize its assets and discharge its liabilities in the normal course of business*". This clearly indicates that the EP was doubtful about the company as a Going Concern. Paragraph 21 of SA 570 clearly requires that if the financial statements have been prepared using the going concern basis of accounting but, in the auditor's judgment, management's use of the going concern basis of accounting in the preparation of the financial statements is inappropriate, the auditor shall express an adverse opinion. There is no evidence in the Audit File that the EP had applied professional scepticism to the management's use of the going concern basis and of the EP forming his opinion in accordance with paragraph 21 of SA 570. This is despite the fact that the EP was aware that there were serious concerns about the going concern basis of the company, which had actually gone into CIRP, and an IRP had also been appointed. We find that this is serious lapse of the EP as an audit opinion expressed in the audit report holds a very high value being an assurance to the stakeholders about the true and fair position of the financial statements. The auditor's failure to exercise due diligence and due professional care in order to give an appropriate audit opinion in accordance with the SAs and other applicable laws is not just a violation of the fundamental principles of *professional competence* and *due care* stated in the Code of Ethics[5] but is also an act of breach of trust and misleading the users of the financial statements.

24. It is also relevant to mention that paragraph 23 of SA 570 requires that if adequate disclosure about the material uncertainty is not made then the auditor shall express a qualified opinion or adverse opinion, as appropriate, in accordance with SA 705. In terms of paragraph 7 and 8 of SA 705 an auditor shall express an adverse opinion if the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements are both material and pervasive to the financial statements. In other words, while the Audit File should provide adequate justification for the EP going for either qualified or adverse opinion in accordance with SA 705, there is nothing in the Audit File to support the EP going for a qualified audit opinion without determining whether the material uncertainty was also pervasive. We therefore find the reply

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[3] Order number CP (IB) No.201/Chd/Hry/2018 dated 21.08.2018
[4] IBBI circular no. IP/002/2018 dated 03.01.2018.
[5] Code of Ethics 2009, issued by ICAI.

and explanation of the EP unacceptable and conclude that he was grossly negligent in performing his duty in accordance with both SA 570 and SA 705.

C.2 Lapses in Audit Documentation: Failure to comply with the requirements of SA 230[6] and SQC-1[7]

25. The EP was charged with failure to adhere to the responsibilities relating to audit documentation as required by SA 230 read with para 75 of SQC-1, which requires a duly and timely preparation of audit documentation, including who performed the audit procedures, when such audit procedures were performed, who reviewed the audit work, what discussion of significant matters took place with management & TCWG etc. and the assembly of the Audit File within 60 days after the date of the auditor's report.

26. Responding to these charges, the EP stated that "*Soft data maintained in respect of audit work carried is attached (Annexure R-27, R-28) (Page no. 145 to 154) in excel sheet, showing names of audit team, work done, dates etc. Work done was reflected in Audit Observations which were revised and updated several times, as an ongoing process*". However, the EP admitted in the oral hearing that the Audit File was not assembled and archived within the stipulated time of 60 days of the audit report. Based on the date of audit report of 06.02.2019, the Audit File must have been archived by 07.04.2019.

27. Our analysis of the EP's reply and other related material shows that:

i. The audit work papers were deficient in many respects, including the caption of work paper, date, signature of maker/checker etc. as seen from Exhibit 1 and Exhibit 2 annexed with this order.

ii. The Audit File lacked many significant and critical working papers like:
   a. Audit Plan and Audit Programme;
   b. Working papers for setting materiality and performance materiality;
   c. Auditor's evaluation of the appropriateness of management's use of the going concern assumption;
   d. Auditor's assessment of the fraud risk in the company;
   e. Details of the EQCR, its team and the review work performed by the EQCR;
   f. Minutes of the meetings of the members of engagement team with joint auditors, with management and the TCWG.

iii. Annexure R-27 & R-28 referred to by the EP in his reply and reproduced here as Exhibit 3 and Exhibit 4 annexed with this Order, are sheets of work progress report with the name and the initials of the members of the engagement team who carried out that procedure. We note that one member of the team viz. Mohit Modi has totally different signatures in these two papers relied upon by the EP. When pointed out at the time of oral hearing, the EP looked amused and actually started laughing, showing not only his irresponsible attitude to such grave irregularities but the possibility that the audit work papers have been tampered with thereby raising serious doubts regarding the integrity of the Audit File and the audit work it represents. Internationally too, such conduct is regarded as a serious misconduct and we note that in a number of cases the

[6] Standard on Auditing 230, Audit Documentation (SA 230)

[7] Standard On Quality Control, Quality Control for Firms That Performs Audit And Reviews Of Historical Financial Information, And Other Assurance And Related Services Engagement (SQC 1)

PCAOB[8], the U.S. Regulator, has taken penal actions against the auditors for tampering with the Audit Files subsequent to the date of audit report and/or archival of the Audit File.

28. Appropriate & timely documentation of the audit procedures performed, audit evidence obtained, conclusions drawn by the auditor and the archival of the complete audit documentation within a reasonable time are the backbone of the integrity of audit. It is the audit documentation which acts as evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements. Further, the audit documentation acts as the basis for the audit opinion expressed in the audit report. Inadequate and improper documentation and non-archival of Audit File within the stipulated time, as admitted by the EP in the oral hearing, are glaring and serious deficiencies in performing an audit. Inadequate, improper documentation and non-archival of Audit File within the stipulated time is a serious deficiency in performing an audit. In absence of proper audit documentation, there is no way for us to ascertain whether the required audit procedures were performed at all. Therefore, we are left with no option but to draw a conclusion that the audit work as claimed was not performed. In light of this, we find the reply and explanation of the EP unacceptable and conclude that the EP was grossly negligent in performing his duty in accordance with SA 230.

C.3 Lapses in duties related to Engagement Quality Control Review (EQCR) Partner

29. Noting that there was no formal appointment of an EQCR, even though the Company was a listed company, the SCN charged the EP was with failure to adhere to the duties related to EQCR, as required by para 19 (a), (b) and (c) of SA 220,[9] which state that for the audits of financial statements of listed entities, the EP shall determine that an EQCR has been appointed; that he shall discuss the significant matters arising during the audit engagement with the EQCR; and that the EP shall not date the auditor's report until the completion of the engagement quality control review.

30. In his written reply and in the oral hearing, the EP submitted that Sunil Bhansali, Promoter Partner in M/s Oswal Sunil & Company was the EQCR partner, and that he had held detailed discussions with him in the course of the audit engagement. However, during the oral hearing held on 02.02.2023, Sunil Bhansali clearly stated that he was not the EQCR but had helped the EP in this audit. Sunil Bhansali confirmed this again vide his email dated 05.02.2023 stating that *he cannot be said to be the EQCR for the engagement.* In light of these facts, it is clear that the EP made false statement to NFRA.

31. In the audit of financial statements of a listed entity, the role of an EQCR is important for ensuring quality, as the EQCR evaluates the significant judgments made by the engagement team and the related conclusions reached in forming the overall audit opinion. By failing to determine the appointment of the EQCR in the audit of a listed entity, the EP has seriously compromised the quality of the audit process and its outcome. The submissions and misleading statements by the EP relating to the appointment of the EQCR, which amounts to false evidence, is also a breach of the *fundamental principles* of "*Integrity*" and "*Professional Behaviour*" enshrined in the *Code of Ethics* issued by Institute of Chartered Accountants of India.

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[8] KPMG Assurance and Consulting Services LLP and Sagar Pravin Lakhani (Dec 2022), KPMG Singapore- Tan Joon Wei (2021), Deloitte LLP Canada (2021), BDO-Mexico (2019), Deloitte Brazil (2016)

[9] Standard on Auditing 220, Quality Control for an Audit of Financial Statements (SA 220)

32. In light of this, we find that the EP not only showed gross negligence in performing his duty in violation of SA 220, but is also guilty of submitting false and misleading information to the NFRA.

C.4 Suspected Fraud: Lapses in fulfilling auditor's responsibilities

33. The EP was charged with failure to adhere to the responsibilities relating to fraud/suspected fraud as required by para 16 and 24 of SA 240,[10] which states that while performing risk assessment procedures, the auditor shall perform the procedures to obtain information for use in identifying the risks of material misstatement due to fraud; and that the auditor shall evaluate whether the information obtained from the other risk assessment procedures and related activities performed indicates that one or more fraud risk factors are present.

34. In his written reply, the EP submitted that he had carried out analytical procedures, substantive testing and made a checklist regarding fraud. In the oral hearing, the EP stated that he had carried out the required procedures, but they are not documented in the Audit File as he had submitted only a part of Audit File to NFRA.

35. We find that the reply and explanation given by the EP are misleading as there is no documentation in the Audit File to show that analytical procedures and substantive testing were performed by the EP as required by SA 240 despite some strong indications of unusual and suspicious activities as follows:

i. There was a drastic decline in the inventory level from ₹ 208.22 crore on 1 April 2017 to ₹ 0.48 crore on 31 March 2018
ii. Huge provisions were made against the Trade Receivables during the preceding year (₹ 93.16 crore), which had increased dramatically to ₹ 1295.01 crore in 2017-18.
iii. The Company had filed a report with BSE/NSE in May 2018 that its chairman had been arrested for fraud.
iv. There was no evidence of physical verification of the Property, Plant and Equipment of ₹ 88.07 crore.

Further, the checklist referred to by the EP in his reply to the SCN, is without any date or signature of maker/checker rendering the authenticity and integrity of the checklist doubtful.

36. An auditor is duty bound to exercise due professional care and professional skepticism in performance of the audit that includes a questioning mind and a critical assessment of the audit evidence. More so, since the audit firm and the EP were the auditors of the company for the previous FY i.e., 2016-17 also, they were privy to the operations and goings on in the company and were therefore required to be more alert and vigilant to the existence of fraud risk factors.

37. We find that the EP had reported, in clause (x) of CARO report, that the company had intimated the stock exchanges regarding the fraud/default by the promoters/key management persons/entity involving estimated amount of ₹ 10-11 crores. However, we note the EP had ignore other strong indicators of potential fraud. We note that the company had provided for unusually high amounts of doubtful debts (under Trade Receivables) of ₹1295.01 crores as on

[10] Standard on Auditing 240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statement (SA 240)

31 March 2018 compared to ₹ 93.16 crore in the previous FY 2016-17. The Audit File has no evidence that the EP applied professional skepticism to probe and report on the potential fraud reflected by such huge amounts of provisioning and its eventual write off. Similarly, we find that there was a drastic decline in the inventory from ₹ 208.22 crore to ₹ 0.48 crore only (decline of 99.76%) but there is no evidence in the Audit File of a sound audit examination of the reasons of this decline. The EP in his reply has mentioned about the write off of the inventory of only ₹ 8.65 crores out of the total decline of ₹ 207.74 crores, but failed to offer any explanation about the remaining amount of ₹ 199.09 crores. Both these events led to the net worth of the company turning into a negative (minus ₹ 977.4 crores as of 31.03.2018) as against positive net worth of ₹ 483.46 crores as of 31.03.2017. As discussed in paragraph 50 subsequently, the EP also failed to evaluate the possibility of fraudulent transactions in Property, Plant and Equipment (PPE) of ₹88.07crores as of 31.03.2018, which accounted for 59.38 % of the total PPEs of the company, arising out of absence of internal controls for PPE. All these adverse indicators in the financial affairs of the company should have aroused the EP's suspicion and professional scepticism about the possibility of fraud in the company. However, instead of performing detailed audit procedure in the matter the EP made a casual and irresponsible statement in his audit report that "*Based upon the audit procedure performed…….., we are unable to comment whether or not there was any fraud by the company or on the company by its officers or employees.*"

38. We also note that the EP had also issued quarterly review reports on internal financial results of the Company for the three quarters viz. 30.06.2017, 30.09.2017 and 31.12.2017 during the FY 2017-18. These quarterly review reports were qualified on account of uncertainty about recovery of trade receivables, and non-compliance with the provisions of the Act relating to creation of deposit repayment reserves and highlighted the company's difficulties in repaying the Bank's credit facilities. More importantly, the quarterly review report dated 13.02.2018 for the quarter ending 31.12.2017 was qualified on account of erosion of net worth due to write off of huge amount of trade receivables of ₹ 825.34 crores. It is evident that the EP was aware of these strong indicators of serious mismanagement and potential fraudulent transactions in the company much before the knowledge of FIR against Chairman of the Company on 06.03.2018. However, these failed to arouse his suspicion and initiate steps required under section 143 (12) of the Act read with Rule 13 of Companies (Audit and Auditors) Rule 2014 to report the matter to the Central government. Instead, the only report the EP made to the Central Government through ADT-4 filing dated 10.12.2018 was that he became aware that the company had intimated to the stock exchanges on 07.05.2018 that a fraud had been committed by the promoters/key management persons/entity.

39. It is important to note that the EP's responsibility does not end merely by filing an ADT-4 simply copying the intimations given by the company to the stock exchanges and he cannot take shelter to hide his gross negligence. We find that the EP displayed gross negligence and complete lack of due diligence in ignoring strong indicators of potential fraud and thereby not fulfilling his responsibility under section 143 (12) of the Act and his duty in accordance with SA 240.

Part D: OTHER LAPSES IN THE AUDIT

D.1 Failure to comply with the requirements of Joint Audit

40. The EP was charged with failure to adhere to the responsibilities relating to joint audit as required by para 2 and para 3 of SA 299,[11] which state that the joint auditors shall mutually

[11] Standard on Auditing 299, Responsibility of Joint Auditors (SA 299)

discuss and divide the audit work between themselves in terms of audit of identifiable units or specified areas and this division should be adequately documented.

41. In his written reply, the EP submitted that the work was divided mutually between the joint auditors and also annexed a copy of an e-mail dated 29.07.2017 showing the division of work. In the oral hearing, the EP stated that the document related to mutual division of work was signed during the joint statutory audit of the company for the previous FY i.e., 2016-17, and admitted that no such document was signed for audit year 2017-18 and made part of the audit documentation.

42. Our analysis of the replies by the EP and related documents shows that:

i. In accordance with the requirement of para 2 and para 3 of SA 299, the EP was professionally duty bound to document the division of work between the joint auditors and the areas of work to be covered by them. But no such documents were found in the Audit File. The document attached by the EP with the email dated 29.07.2017 at Exhibit 5 annexed with this order, is a generic document and does not reflect the detailed division of the audit work between the joint auditors as required by SA 299. Further, the said document does not bear any seal and signature of the joint auditors thereby raising serious doubts about the genuineness, integrity and reliability of such an important document.

ii. The statement of EP that the document related to mutual division of work was signed in the previous FY i.e., 2016-17 is not supported by any document in the Audit File and is irrelevant to this case as it does not pertain to the audit year under consideration.

iii. The EP in his deposition before SFIO has stated that the work distribution between the joint auditors was decided by Mr. Anil Jindal, Chairman and Managing Director of SRS Ltd, and it was agreed upon by the joint auditors. In view of this and in the absence of any evidence that the joint audit was mutually decided, it is evident that the EP compromised with the basic principle of independence of the auditor by surrendering to the dictates of the Company's management in utter disregard of the responsibility cast on the joint auditors. Accordingly, we find him guilty of gross negligence by not adhering to the requirements of SA 299.

D.2 Failure to comply with the requirements of SA 300[12] and SA 320[13]

43. The EP was charged with failure to develop and document the audit plan and audit strategy that set the scope, timing, and direction of the audit as required by SA 300 and with failure to determine materiality for the financial statements as a whole while establishing the audit strategy as required by SA 320.

44. Responding to the charge related to SA 300, the EP stated that they had prepared the audit plan and programme and also attached them as annexure R-25 and R-26 in the reply to the SCN. In respect of the charge related to SA 320, the EP stated that due to the closure of the retail and jewellery segments of the company, the total assets were considered as benchmark for

[12] Standard on Auditing 300, Planning an Audit of Financial Statements (SA 300)
[13] Standard on Auditing 320, Materiality in Planning and Performing an Audit (SA 320)

determining materiality; and that the overall materiality was set at 1% of the total assets and the performance materiality was set at 75% of the overall materiality. In the oral hearing, the EP stated that the evidence for setting of materiality is present in the Audit File of the other joint auditor and not in his Audit File.

45. We have considered the reply and explanation given by the EP and find that these are false and misleading as there is no documentation in the Audit File with reference to audit plan, audit strategy and setting of materiality. Further, the statement of the EP that the evidence for setting of materiality is present in the Audit File of the other joint auditor is also false and mischievous as the Audit File of the other joint auditor, also in custody of NFRA, does not contain any document for setting materiality.

46. The preparation of the audit plan and strategy by the auditor is a fundamental building block of an audit. Further, determining materiality is of such critical importance in an audit that para 10 and 11 of SA 320 use the expression 'shall' to put the unconditional obligation on the part of the auditor to determine materiality. By failing to plan the audit and set materiality, the EP has exhibited a casual and cavalier approach towards the audit of a listed entity that involves public interest. We therefore find that the EP has shown gross negligence and complete lack of due diligence in performing his duty and has therefore failed to comply with the requirements of SA 300 and SA 320.

D.3 Failure to report noncompliance with Ind AS 36- Impairment of Assets

47. The EP was charged with failure to report noncompliance with Ind AS 36 Impairment of Assets. Ind AS 36 provides that an asset is impaired when its carrying amount exceeds its recoverable amount[14]. Recoverable amount is the higher of its fair value less costs of disposal (FVLCD) and its value in use (VIU)[15]. SRS Ltd had investments of ₹ 26.66 crores and ₹ 0.10 crores in the unquoted shares of its wholly owned subsidiaries SRS Entertainment India Ltd and SRS Smart Retail Ltd respectively. These subsidiaries were loss making and therefore, there were indicators of impairment which required impairment testing to be done for the investments made in them. But no such impairment testing was done by the company and the EP failed to report this non-compliance with Ind AS 36 in his audit rep48. Responding to these charges, the EP in his written reply stated that there were no reasons to impair the investment in the subsidiaries on the following grounds:

i. The auditor of SRS Entertainment India Ltd did not give any qualification in respect of going concern and net worth.

ii. The EP was made available an agreement between SRS Ltd, SRS Entertainment India Ltd and Carnival Films Private Ltd wherein Carnival Films Private Ltd had proposed to acquire 59 screens of SRS Ltd and SRS Entertainment India Ltd for ₹ 210 crores in which 12 screens pertained to SRS Entertainment India Ltd. The figure of ₹ 210 crores was apportioned between the SRS Ltd and SRS Entertainment India Ltd by the EP and the other joint auditor on the basis of the number of seats. On the basis of this apportionment, the recoverable amount of SRS Entertainment India Ltd comes to ₹ 40.32 crores, whereas the carrying value of investment in SRS Entertainment India Ltd is ₹ 26.66 crores.

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[14] Para 8 of Ind AS 36

[15] Para 6 of Ind AS 36

iii. The carrying amount of investment in SRS Smart Retail Ltd is ₹ 0.10 crores which is less than the "clearly trivial" level and therefore not considered in the course of audit.

48. Our analysis of the EP's reply and other relevant material shows that:

i. The EP was required to independently obtain sufficient and appropriate evidence which enables him to arrive at a conclusion and support his opinion. The fact that the auditor of SRS Entertainment India Ltd, a loss making company, did not give any qualification in respect of Going Concern and net worth does not discharge the EP from his statutory and professional responsibility of obtaining sufficient and appropriate evidence regarding impairment testing of the subsidiaries when there is an indicator of impairment.

ii. The agreement as referred in the para 47 (ii) above, was a mere Memorandum of Understanding (MoU), which cannot be considered binding and as sufficient and appropriate audit evidence for not performing the impairment test.

iii. There is no documentation in the Audit File to support the reply of the EP with reference to:
   a. The agreement referred to in paragraph 47 (ii) above.
   b. EP's working related to the apportionment of the ₹ 210 crores between SRS Ltd. and SRS Entertainment India Ltd. or any other valuation report.

49. In light of the above, we find the reply and explanation of the EP is an afterthought to mislead NFRA which cannot be accepted, and the EP is found to be grossly negligent in not reporting non-compliance with Ind AS 36.

D.4 Failures in Evaluation of Property, Plant and Equipment (PPEs)

50. Noting that there was no evidence in the Audit File that the EP had performed any audit procedures related to the physical verification and valuation of PPEs of the company amounting to ₹ 88.07 crores, the EP was charged with violation of Para 15and 16 of SA 200[16] and Para 6 of SA 500[17]. Para 15 of SA 200 requires an auditor to plan and perform an audit with professional skepticism, recognizing that circumstances may exist that cause the financial statements to be materially misstated. Para 16 of SA 200 requires an auditor to exercise professional judgment in planning and performing an audit of financial statements. Para 6 of SA 500 requires an auditor to design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.

51. Responding to these charges, the EP in his written reply stated that physical verification of PPE having net block of ₹ 88.05 crore was not done during the FY ended 31.3.2018 and made the following additional points:

i. ICAI Guidance Note on Companies (Auditor's Report) Order, 2016 (CARO) states that "*the clause requires the auditor to comment whether the fixed assets of the company have been physically verified by the management at reasonable intervals. The clause further requires the auditor to comment whether any material discrepancies were noticed on such verification and if so, whether those discrepancies have been properly dealt with in the books of account.*

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[16] Standard on Auditing 200, Overall Objectives of the Independent Auditor and the. Conduct of an Audit in Accordance with Standards on. Auditing (SA 200)
[17] Standard on Auditing 500, Audit Evidence (SA 500)

Physical verification of the assets is the responsibility of the management and, therefore, has to be carried out by the management itself and not by the auditor.";

ii. he had commented about the matter in the CARO report for the FY 2018-19;

iii. he had sent an email dated 14.11.18 to State Bank of India (SBI) seeking confirmations of the original deed of the immovable properties held by SBI but the confirmation was not received as on the date of audit report.

52. We note that the Company itself had declared in Note 42 to the financial statements that physical verification of PPEs aggregating to ₹ 88.07 crore could not be carried out at certain locations. Instead of taking this as a cue for further audit procedure, especially in view of the numerous red flags about corporate violations discussed in this Order, the only comment made by the EP in the Audit Report in this regard was that PPEs amounting to ₹ 1380 lakhs were written off. In the CARO Report attached as Annexure A to the Audit Report, the EP repeated the disclosure by the Company about the lack of physical verification of the PPEs. In his Report on the Internal Financial Control attached as Annexure B to the Audit Report the EP had mentioned about the lack of internal financial control over physical verification of fixed assets and inventories. However, there is nothing in the Audit File to indicate if any analysis was done based on these indicators and if any findings were reached based on this analysis in respect of the PPEs. Therefore, there is no evidence of the EP's compliance with SA 200 and SA 500. Our analysis of the specific points made by the EP and related documents shows that:

i. Para 2 of CARO states that "*Every report made by the auditor under section 143 of the Companies Act, 2013 on the accounts of every company audited by him, to which this Order applies, for the financial years commencing on or after 1st April, 2015, shall in addition, contain the matters specified in paragraphs 3 and 4, as may be applicable*". The use of the term "*shall in addition*" makes it clear that the requirements as specified in CARO are in addition to the requirement as specified in SAs, Laws and Regulations. CARO does not replace the requirements of SAs; it rather supplements the SAs in the interest of the users of the financial statements. The CARO, therefore, does not relieve the EP from his professional and statutory responsibilities specified under SA 200 and SA 500.

ii. The comment made by the EP in respect of the CARO report for the FY 2018-19 holds no relevance as the FY under consideration in the SCN and in this Order is 2017-18.

iii. The e- mail to SBI by the EP, as mentioned in para 51 (iii) above, was sent on 14.11.18 and the date of audit report is 06.02.2019 suggesting that the email remained un-replied for almost 3 months. There is no evidence of any follow up by the EP, even though the relevant branch of SBI is situated barely 4 kilometres away from the registered office of the EP.

iv. The audit engagement of SRS Ltd was conducted when the Company had gone into the insolvency and there were tell-tale signs of high inherent risk, including fraud risks, related to the assets of the Company including the PPEs, the amount of which (₹ 88.07 crores) was material. These PPEs were a major source for repayment of dues to lenders and other stakeholders of SRS Ltd. Such a situation required high degree of professional skepticism and judgement in planning and performing the audit as required by Para 15 and Para 16 of SA 200, which we find was woefully lacking in the audit procedure performed by the EP.

53. In light of the above analysis, we find the reply and explanation of the EP unacceptable and find him to be grossly negligent in not performing his duty in accordance with SA 200, SA 500 and SA 705.

D.5 Failures to perform duties with respect to unusual transactions

54. The EP was charged with failure to perform duties with respect to unusual transactions, for example, 99.76% decline in the inventory from FY 2016-17 to FY 2017-18 and provisioning of doubtful debt to the tune of 99.99% of the trade receivable of ₹ 1290.27 crores in the FY 2017-18 in the gold and jewelry segment of SRS Ltd., which was in violation of para 28 of SA 315[18], para 16 of SA 550[19] and para 32 (c) of SA 240[20].

55. Para 28 of SA 315 requires an auditor, in judging whether a risk is a significant risk, to see whether the risk involves significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual. Further, EP's assessment of risk of material misstatement may change during the course of the audit due to new audit evidence or information which may be inconsistent with the audit evidence on which the EP based his original assessment, the auditor shall revise the assessment and modify the planned audit procedures accordingly. Para 16 of SA 550 requires an auditor to inquire with the management, the nature of the transactions and whether related parties could be involved in case the auditor identifies significant transactions outside the entity's normal course of business when performing the audit procedures. Para 32 (c) of SA 240 requires an auditor, for transactions that appear to be unusual, to evaluate whether the business rationale (or the lack thereof) of the transactions suggests that they may have been entered into, to engage in fraudulent financial reporting or to conceal misappropriation of assets.

56. Responding to these charges, the EP in his written reply stated that he had duly performed the evaluation of likelihood of misappropriations and also attached some working papers to support his claims. The EP also quoted para 5(d) of his audit report where he gave qualification in respect of the write offs/provisions related to inventory and receivables.

57. Our analysis of the EP's reply and other related material shows that the reply and explanation given by the EP are misleading as there is no documentation in the Audit File on working related to risk assessment, inquiry with the management with respect to the involvement of related parties and evaluation of the business rationale of the unusual transactions as required by the SAs. Further, the work papers referred to by the EP in his reply to the SCN, though liable to be rejected, fall miserably short of the audit procedures required to be performed by the EP as mandated in SA 315, SA 550 and SA 240.

58. As said by Lord Alverstone, Chief Justice, in his address to the Jury in the case reported at [1904] 31 Accntt. LR 1 London Oil Storage Co. Ltd. v. Seear, Hasluck and Co., "*He (auditor) is not, however, supposed to be a man constantly going about suspecting other people of doing wrong .... If circumstances of suspicion arise, it is the duty of the auditor, in so far as those circumstances relate to the financial position of the company, to probe them to the bottom ....* ".

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[18] Standard on Auditing 315, Identifying and Assessing the Risk of Material Misstatement Through Understanding the Entity and Its Environment (SA 315)
[19] Standard on Auditing 550, Related Parties (SA 550)
[20] Standard on Auditing 240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statement (SA 240)

In the light of the unusual circumstances prevailing in the company, the EP should have performed more detailed work instead of carrying out a perfunctory audit.

59. There is no adequate documentation in the Audit File which supports the EP's reply and explanation on the charge of his failure to perform duties with respect to unusual transactions. Therefore, his reply cannot be accepted, and we find him negligent in performing his duty and thus failing to comply with SA 315, SA 550 and SA240.

D.6 Non-compliance with provisions of the Companies Act 2013:

60. The EP was charged with failure to comply with Section 143 (9)[21] of the Companies Act, 2013 which requires that every auditor shall comply with the SAs.

61. Responding to the charge, the EP in his written reply stated that the Auditing Standards are a set of guiding principles, and he has complied with the SAs in letter and spirit while conducting the audit of SRS Ltd.

62. From our analysis of the EP's reply and other related material we find that:

i. The reply and explanation given by the EP are baseless and misleading in the view of the errors and omissions mentioned in the foregoing paragraphs of this Order wherein the non-compliance with various SAs stands proved.

ii. It is also critical to note that the new format of SAs, in effect since 1st April 2008, have replaced the expression 'Should' with 'Shall' in the main requirements of the SAs, in line with the change in the International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB) pursuant to its clarity project. In view of this, there is no merit in the irresponsible and unprofessional averment of the EP that the SAs are simply a set of guiding principles. Rather, they are mandatory obligations on the part of auditor.

63. Thus, the reply and explanation of the EP cannot be accepted, and we find that the EP was grossly negligent in performing his duty and therefore violated Section 143 (9) of the Companies Act, 2013.

D.7 Failure to report non-compliance with Ind AS 105:

64. The EP was charged with failure to report non-compliance with Ind AS 105[22] which requires the company to disclose the analysis of the revenue, expenses and pre-tax profit or loss of the discontinued segments.

65. The EP in his written reply stated that the details of the revenue and expenses of the discontinued segments were given in note 44 to 44.3 of the standalone financial statements. The EP qualified his audit opinion in respect of the PPEs, inventory, trade receivables and loans and advances related to discontinued segments and also reported the weakness in the internal financial control in his audit report.

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[21] Section 143 (9): Powers and duties of auditors and auditing standards.

[22] Indian Accounting Standard 105, Non-current Assets Held for Sale and Discontinued Operations (Ind AS 105)

66. In light of the reply of the EP, the charge stands dropped.

D.8 Inadequate disclosure under Companies (Auditor's Report) Order, 2016

67. The EP was charged with inadequate disclosure under CARO wherein the EP failed to report the periods of defaults in repayment of loans or borrowings to financial institutions, banks, government, or dues to debenture holders.

68. Responding to these charges, the EP in his written reply stated that there was a mismatch between the details of the default in principal and interest as given in note 20.1 of the standalone financial statements and the details of the claims available with the IRP and that the reconciliation was not completed till the date of audit report and that he had qualified this matter of non-reconciliation in para 5(b) his audit report.

69. In light of the reply of the EP, the charge stands dropped.

E. ARTICLES OF CHARGES OF PROFESSIONAL MISCONDUCT

70. Given the above-mentioned actions and omissions, it is established that CA Naresh Kumar, EP, showed gross negligence and lack of due diligence. The EP has been found to be grossly negligent in his professional duties by not adhering to the requirements laid down by the Companies Act, 2013 and relevant Standards on Auditing. This has led to the issuance of an audit report not backed by valid audit evidence and absence of quality in the audit work. Specifically, the following failures on the part of CA Naresh Kumar, EP, as contained under the Articles of Charges in the SCN are established:

a) CA Naresh Kumar committed professional misconduct as defined 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 (no. 38 of 1949) as amended from time to time, which states that an EP is guilty of professional misconduct when he *"fail 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 he is concerned with that financial statement in a professional capacity"*

This charge is proved as the EP failed to disclose in their report the material non-compliances the company made as explained in C and D above (except for the dropped charges).

b) CA Naresh Kumar 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 (no. 38 of 1949) as amended from time to time, which states that an EP is guilty of professional misconduct when he, *"Fail 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 EP failed to disclose in his report the material misstatement the company made as explained C and D above (except for the dropped charges).

c) CA Naresh Kumar 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 (no. 38 of 1949) as amended from time to time, which states that an EP is guilty of professional misconduct when he, "does not exercise due diligence, and being grossly negligent in the conduct of professional duties".

This charge is proved as the EP failed to conduct the audit in accordance with the SAs and applicable regulation, failed to report the material misstatements in the Financial Statement and failed to report non-compliance made by company, as explained C and D above (except for the dropped charges).

d) CA Naresh Kumar committed professional misconduct as defined 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 (no. 38 of 1949) as amended from time to time, which states that an EP 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 EP failed to conduct the audit in accordance with the SAs and applicable regulation, as well as due to their total failure to report the material misstatements and non-compliances made by the company in the Financial Statements, as explained in C and D above (except for the dropped charges).

e) CA Naresh Kumar 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 (no. 38 of 1949) as amended from time to time, which states that an EP is guilty of professional misconduct when he, "Fails to invite attention to material departure from the generally accepted procedures of audit applicable to the circumstances".

This charge is proved as the EP failed to conduct the audit in accordance with the SAs and applicable regulation as explained in C and D above (except for the dropped charges).

71. Thus, EP Naresh Kumar committed professional misconduct, as defined in the respective clauses of the Chartered Accountants Act, 1949, the meaning of which is conceived under Section 132 (4) of the Companies Act as amounting to professional misconduct

F. PENALTY and SANCTIONS

72. The seriousness with which proved cases of professional misconduct are to be viewed is evident from the fact that a minimum punishment is laid down by the Act.

73. 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 PIE. Failure of the EP to meet the requirements envisaged under the Act and contemporary professional Standards on Auditing has been the hallmark of this audit engagement performed by the EP.

74. The dismal quality of audit in this engagement can be gauged from the failure of the EP to evaluate the company as a going concern, to prepare and document the audit working papers, and to critically assess the audit indicators related to the suspected fraud in the company etc.

Instead of being an exercise of application of professional skill and care expected of an auditor of a PIE, this audit had degenerated into a futile exercise of simply collecting and filing reams of photocopies of documents of routine nature in the audit work paper files. The best of systems fails if the professionals implementing the system do not perform their job which could ultimately result in a breakdown in trust and confidence of investors and the public at large to take informed decisions.

75. As detailed in this order, substantial deficiencies in audit, the abdication of responsibility and inappropriate conclusions on the part of EP, CA Naresh Kumar, establish his professional misconduct. In addition, CA Naresh Kumar has tried to mislead NFRA by giving evasive replies and falsified documents. Despite being a qualified professional, CA Naresh Kumar has not adhered to the Standards and has thus not discharged the duty cast upon him as a statutory auditor.

76. We have also explained above that CA Naresh Kumar lacks the level of knowledge, competence, skill, and the application that is normally expected from such a professional. Under the circumstances, we proceed to impose sanctions on the EP, CA Naresh Kumar, keeping in mind their deterrence, proportionality, and the signalling value.

77. 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 ten 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.

78. As per information furnished by M/s Oswal Sunil & Company vide e-mail dated 31.08.2022, the statutory audit fees of SRS Ltd for 2017-18 was [redacted] besides M/s Oswal Sunil & Company received [redacted] as fees for limited review from SRS Ltd.

79. Considering the fact that professional misconduct has been proved and considering the nature of violations and principles of proportionality, we, in the exercise of powers under Section 132(4) of the Companies Act, 2013, order:

a) Imposition of a monetary penalty of ₹ 300,000/- (Three Lakhs) upon CA Naresh Kumar.
b) In addition, CA Naresh Kumar is debarred for 3 (Three) 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.

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

Sd/-

(Dr. Ajay Bhushan Prasad Pandey)

Chairperson

Sd/-

(Dr. Praveen Kumar Tiwari)

Full-Time Member

Sd/-

(Ms Smita Jhingran)

Full-Time Member

Authorised for issue by the National Financial Reporting Authority,

Vidhu Sood

Date: 21.04.2023
Place: New Delhi

(Vidhu Sood)
Secretary

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

To

CA Naresh Kumar
ICAI Membership No-085238
Oswal Sunil & Company
71, Darya Ganj,
New Delhi - 110002
E-mail: oswalsunil.co@gmail.com, mail@oswalsunil.com

Copy To: -

i. Secretary, Ministry of Corporate Affairs, Government of India, New Delhi.
ii. SFIO, New Delhi
iii. Securities and Exchange Board of India, Mumbai.
iv. Registrar of Companies, Mumbai.
v. Secretary, Institute of Chartered Accountants of India, New Delhi.
vi. IT-Team, NFRA for uploading the order on the website of NFRA.

ANNEXURE

Exhibit 1
(An example of audit work programme)

(1X)

9/10/15

OSC

1. Corporate ~~Gta~~ Trial Match (April to Dec — July + Dec / April – June)
2. Project & No new business in FY - 17-18
3. 7 days ok – SRS Flames – Seen in FBO (Closed in Dec-17) / Rewpeter Hands – FBO (Dec-17) / Workshop
4. Jewellery JEW ok
5. WT Grocery – No Trans" in FY 17-18
6. Secretarial –
7. Loans (Bank) — Corporate + JEW + Value Bazar (Vehicle loan)
8. Inventory Valuation
9. Provisioning
10. Salary
11. Public Deposit – Not Ended. – 12/10/15 – Reco with Books of Accts

SUP

1. M&M – Tri ok
2. Value Bazar – ok
3. Cinema – ok
4. Statutory liabilities
5. Public deposit – Not Freeze

~~Jointly~~ / Segment wise

FA – Segment wise
Inventory Valuation —do—
Debtors / Creditors Confirmation —do—
Provisioning for Exp —do—

Joint-
GST
I. Tax
Notes to Accts
Audit Report
Public Deposit

Exhibit 2
(An example of audit observation document)

SRS Ltd (Statutory Audit)
Audit Observations for FY 31.03.2018

1. Business of Jewellery Division – discontinuation thereof

Vide letter dated [illegible] the [illegible] Reg 30 of LODR [illegible]
This is to inform you that the Company has discontinued the operations of its Jewellery Division [illegible] meeting held on 15.12.17, a resolution was passed to discontinue the operations of Jewellery Division of the Company and to complete all the transactions of jewellery division by 15th January, 2018. However as per revised resolution [illegible] the date is extended till 31st March 2018. [illegible] for the FY 31.03.18, jewellery division has been discontinued after [illegible]

Jewellery division had VAT registrations in following states – Haryana, Delhi, U.P., Maharashtra and Gujarat. If Jewellery business has been discontinued, then what is the status of VAT Security deposit [illegible] VAT Assessment in these states. — Noted

Cut-off date of sale/ purchase transactions in Jewellery Division is required. By way of a detailed note, disclosure to be made [illegible] jewellery business was discontinued, of estimated loss on account of impairment in fixed assets, and other current assets of jewellery division.

The foreign branch in Dubai, UAE has no transaction pertaining to sales & purchases during the [illegible] Sundry Creditors have been paid in full & last payment was as on [illegible]. The payment to creditors were made out of realisation from debtors. There is an outstanding balance of "[illegible] Airport International Free Zone Authority" for Rs. [illegible] against lease, licence & service charges for the period [illegible] which is still payable as on date. [illegible] branch. Imprest amount to AED [illegible] has been written off in books on 31.03.18. Expenses against such imprest are not [illegible] transactions during [illegible] Bank of Baroda. There were no expenses booked for the [illegible] against insurance, rent [illegible] — Noted by mgmt

Foreign Debtors are outstanding for UAE Branch Rs. [illegible] out of which Rs. [illegible] were [illegible] against [illegible] sales. Refer Point 2 [illegible] Section.

2. Jewellery Division Old Outstanding (Debtors) [illegible]

Vide letter dated [illegible] the [illegible] Reg 30 of LODR has intimated NSE and BSE as under:
We would like to clarify that the Company [illegible] under the applicable provisions of the Insolvency & Bankruptcy Code 2016, more particularly Section [illegible] with National Company Law Tribunal for initiation of Corporate Insolvency Resolution process against some of the Debtors of the Jewellery division of the Company.
[illegible]

This is to inform that the Board of Directors of the Company at its meeting held on [illegible] October 2017 has decided to file an application under Section [illegible] of the Insolvency & Bankruptcy Code 2016 with National Company Law Tribunal [illegible]

Following are the parties [illegible] outstanding [illegible] Rs. [illegible]
1. [illegible] Diamonds Private Limited 2. [illegible] Private Limited 3. [illegible] Private Limited 4. [illegible] 5. [illegible] Limited 6. [illegible] Jewellers Private Limited 7. [illegible] Private Limited 8. [illegible] Private Limited 9. [illegible] Jewellers Private Limited 10. [illegible] Jewellers Private Limited 11. [illegible] Jewellers Private Limited 12. [illegible] Private Limited

[illegible]

3. DEBTORS OUTSIDE INDIA (UAE, USA – Information required as to outstanding period [illegible] in the light of provisions as per RBI Circular referred below:

Attention is drawn to RBI Master Circular on Export of Goods and Services Master Circular No. 14/2012-13 dated July 02, 2012 [illegible] should be realised within a period of [illegible] months [illegible] up to a period of [illegible] months [illegible]

Note
Cut-off date 31/1/18
as date of note 31/1/17
NOC from landlord
Security deposit
Cash Landlord
Confirmation

Shown 31/3/18 with SRS team

Break-up by ment

Provision for doubtful items

Exhibit 3
(Work Progress Report)

ANNEXURE-R-28

(146)

OSWAL SUNIL & COMPANY
CHARTERED ACCOUNTANTS
71, DARYAGANJ, NEW DELHI-110002
WORK PROGRESS REPORT

AUDIT FILE No.: 1
SHEET No.: 1

NAME OF THE CLIENT: SRS Ltd.
PERIOD: 01.04.2017 – 31.03.2018
NATURE OF AUDIT: Statutory Audit
TEAM MANAGER: CA Naresh Goel
DATE OF COMMENCEMENT: 21.09.2018

DATE	PROCEDURE PERFORMED	PERFORMED BY	INTIALS
[illegible]	TW (excl. WT) Delhi ledger scrutiny and Balance checking.	Mohit Modi	[illegible]
[illegible]	TWS Upper ledger scrutiny Debtor Balance Check	Mohit Modi	[illegible]
24/9/18	TW Division Trial checking, Scrutiny	Mohit Modi	[illegible]
25/9/18	Corporate Trial Balance and ledger scrutiny	Mohit Modi	[illegible]

Exhibit 4
(Work Progress Report)

(147)

OSWAL SUNIL & COMPANY
CHARTERED ACCOUNTANTS
71, DARYAGANJ, NEW DELHI-110002
WORK PROGRESS REPORT

AUDIT FILE No.: 1
SHEET No.: 2

NAME OF THE CLIENT: SRS Group Ltd.
PERIOD: 01-04-2017 to 31-03-2018
NATURE OF AUDIT: Statutory Audit
TEAM MANAGER: CA Naresh Goel
DATE OF COMMENCEMENT: 21.09.18

DATE	PROCEDURE PERFORMED	PERFORMED BY	INTIALS
09-10	Bank Reconciliation and updation of observation	Mohit Modi	[illegible]
10-10-13	Checking of Debtors ledger and updating the tracker	Mohit Modi	[illegible]

Exhibit 5
(Work distribution statement)

ANNEXURE - R - 15

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SRS LIMITED
Work Distribution - FY 2017-18

Annexure

S.No.	Particular	OSC	SVP	Joint Responsibility
1	Corporate	Yes	No	No
2	MGM	No	Yes	No
3	Project	Yes	No	No
4	Value Bazar	No	Yes	No
5	7Days	Yes	No	No
6	Cinema	No	Yes	No
7	Jewellary	Yes	No	No
8	WT. Grocery	Yes	No	No
9	Fixed Asset	No	No	Segment wise
10	Physical verfication & FAR Verification	No	No	Segment wise
11	Secretarial	Yes	No	No
12	Loans Bank in all respect	Yes	No	No
13	DTA	No	No	Joint
14	Inventory Valuation	Yes	No	Segment wise
15	Debtors/Creditors confirmation	No	No	Segment wise
16	Statutory Liabialities	No	Yes	All Segment
17	Provisioning for Exp.	No	No	Segment wise
18	Income Tax	No	No	Joint
19	Salary	Yes	No	No
20	Notes to Accounts	No	No	Joint
21	Audit Report	No	No	Joint

भारत सरकार / Government of India

राष्ट्रीय वित्तीय रिपोर्टिंग प्राधिकरण /National Financial Reporting Authority

*****

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

No. 20012/2/2022 Date: 21.04.2023

ORDER

In the matter of CA Pankaj Kumar (ICAI Membership No. 091822) under Section 132(4) of the Companies Act 2013 read with Rule 11(6) of National Financial Reporting Authority Rules, 2018.

1. This Order disposes of the Show Cause Notice ('SCN' hereafter) of even no. dated 28th September 2022, issued to CA Pankaj Kumar, partner of M/s SVP & Associates (ICAI Firm Registration No. 003838N), Delhi and the Engagement Partner ('EP' or 'Auditor' hereafter) for the statutory audit of SRS Ltd ('the company' hereafter) for the Financial Year ('FY' hereafter) 2017-18.

2. This Order is divided into the following sections:

   A. Executive Summary

   B. Introduction & Background

   C. Major Lapses in the Audit

   D. Other Lapses in the Audit

   E. Articles of Charges of Professional Misconduct

   F. Penalty and Sanctions

A. EXECUTIVE SUMMARY

3. The National Financial Reporting Authority (NFRA hereafter) is India's independent regulator in respect of matters relating to accounting and auditing of prescribed class[1] of entities which can be broadly described as 'Public Interest Entities' (PIEs hereafter).

4. Following a letter received from the Serious Fraud Investigation Office (SFIO hereafter), Government of India, which had investigated into the affairs of SRS Ltd and its group companies, NFRA initiated action under Section 132(4) of the Companies Act (Act hereinafter) for investigating into professional or other misconduct of the statutory auditors of SRS Limited. SRS Ltd, a listed entity, is one of the companies within the SRS Group dealing in the business of Jewellery, Cinema, Real Estate, Financial Services etc., and went into Corporate Insolvency Resolution Process (CIRP hereafter) by an order dated 21.08.2018 of the Hon. National Company Law Tribunal (NCLT hereafter), Chandigarh Bench.

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[1] Rule 3 of NFRA Rules, 2018

5. M/s SVP & Associates was the Joint Statutory Auditor of SRS Limited for the FY 2017-18 and CA Pankaj Kumar was the EP for this audit. The Firm was responsible for audit of 39.71 % of the total assets of the company. This Firm and the EP were the Joint Statutory Auditor of SRS Limited for the FY 2016-17 also and had issued qualified opinion. They were also engaged for limited review of quarterly financial results (Interim Financial Results), required to be published as per SEBI Listing Obligations and Disclosure Requirement (LODR) Regulations 2015, during the financial year 31.03.2018 and had consistently issued 'Qualified' opinion on those financial results in spite of serious issues and questions relating to recoverability of trade receivables of overseas division, compliance with the provision of the Act relating to creation of Deposit Repayments Reserves and decline of the net worth due to write off of huge amount of trade receivables in the review report for Q3 of FY 2017-18.

6. Based on the perusal of the issues raised in the SFIO report and the preliminary examination of the financial statements of SRS Ltd., it was observed that there was a prima facie case for investigation and/or further action by the NFRA. The EP and the Firm were asked on 18.07.2022 to submit the Audit File and, based on its examination, an SCN dated 28.09.2022 identifying failures and negligences was issued to the EP in terms of Rule 11 of the NFRA Rules, 2018. In the interest of natural justice, the EP was also given a personal hearing on 03.03.2023.

7. The Audit lapses identified, based on the examination of the Audit File and the material on record and after considering the reply of the EP , have been categorized into major lapses and other lapses and are discussed in section C and D respectively of this Order. These lapses relate to the EP's failure to identify and report material mistatements in the financial statements, standard of audit work performed falling way below the mandatory standards prescribed under the Act and required of an auditor of a PIE. The EP's opinion that the financial statements reflected 'true and fair view' in accordance with accounting principles generally accepted in India and the provisions of the Act was found not supported by the appropriate audit evidence. The manner in which the audit 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 a serious lack of competence on the part of the EP.

8. The EP ignored in the performance of the audit, several indicators of potential fraudulent transactions he was privy to; such as unusually high provision of ₹ 1,295.01 crores for bad/doubtful debts in respect of trade receivables (99.85% of the total trade receivables), and substantial decline of ₹ 207.74 crores in the carrying amount of the inventories. However, the EP failed to review these abnormal events for reporting under section 143(12) of the Act choosing to report only ₹ 10-11 crores of fraudulent transactions, which had already been reported by the Company to stock exchanges.

9. The EP failed to demonstrate sufficiency and appropriateness of audit work in virtually every aspect of the audit of the financial statements i.e., Audit Strategy, Planning, Determining Materiality, Assessment of Risk of Material Misstatement and evaluating the audit results. The EP also failed to demonstrate compliance with the requirement of the Standards on Auditing concerning the EQCR and submitted false information on the appointment of an EQCR who, when confronted, denied having any formal appointment.

10. The EP also ignored a number of indicators pointing to the abnormal state of affairs in the Company having adverse implications for the true and fair view of financial statements. The EP failed to display professional scepticism and due diligence in reaching his audit opinion in accordance with SA 570 and SA 705.

11. Finding him guilty of professional misconduct, this Order imposes on the EP, CA Pankaj Kumar a monetary penalty of ₹ 300,000/- (Rupees Three Lakhs); and debars him for 3 (Three) 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

12. The National Financial Reporting Authority ('NFRA' hereafter) is a statutory authority set up u/s 132 of the Companies Act 2013 to monitor 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 is empowered u/s 132 (4) of the Act to investigate into professional or other misconduct committed by any member or firm of chartered accountants in respect of the prescribed classes of bodies corporate or persons, to exercise the powers vested in a civil court while trying a suit and impose penalty for professional or other misconduct of the individual members or firms of chartered accountants.

13. 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 (EP) 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' hereafter), including the Standards on Quality Control (SQC) 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.

14. NFRA received from the Serious Fraud Investigation Office (SFIO) a letter dated 31.08.2021 sharing the findings of their investigation into the affairs of SRS Ltd and the Group for necessary action against their statutory auditors. SRS Ltd is one of the companies within the SRS Group and was incorporated on 29.08.2000. SRS was a listed company and was delisted on 27.08.2021. The Group had presence in the sectors of Jewellery, Cinema, Real Estate, Financial Services etc. The investigation report by SFIO inter alia revealed that the Company and its Group Companies had presented financial statements containing false statement of debtors and indulged in the malpractice of round tripping and layering of transactions resulting in inflated purchases and sales. The company went under Corporate Insolvency Resolution Process (CIRP) by the orders of the NCLT, Chandigarh Bench dated 21.08.2018, on an application made by the State Bank of India following SRS' default on repayment of financial debt of ₹ 543.36 crores.

15. M/s SVP & Associates (Audit Firm hereafter) was the Joint Statutory Auditor of SRS Ltd for the FY 2017-18 and CA Pankaj Kumar was the Engagement Partner (EP hereafter) for this audit. As mentioned in the other matter section of the audit report, the Firm was responsible for audit of 39.71% of the total assets of the company. This Firm and the EP were also the Joint Statutory Auditor of SRS Limited for the FY 2016-17 and had issued a qualified opinion. Also,

they were engaged for limited review of quarterly financial results, required to be published as per SEBI LODR Regulations 2015, for the FY 2017-18 and had issued a 'Qualified' opinion on those financial results in respect of recoverability of trade receivables of overseas division, non-compliance with the provision of the Act relating to creation of deposit repayments reserves and erosion of net worth in Q3 of FY 2017-18 due to write off of huge amount of trade receivables.

16. Vide letter dated 18.07.2022, NFRA called the Audit File from the EP and on his request granted extension of time for submission of the Audit File. The EP submitted the Audit File on 31.08.2022.

17. On examination of the Audit File 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 CA Pankaj Kumar on 28.09.2022 in terms of Rule 11 of the NFRA Rules 2018, asking him to show cause why action should not be taken against him for professional misconduct in respect of his performance as the EP on behalf of M/s SVP & Associates, the Statutory Auditor of SRS Ltd for the FY 2017-18. The EP was charged with professional misconduct of:

i. Failure 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 the CA is concerned with that financial statement in a professional capacity.
ii. Failure to report a material misstatement known to him to appear in a financial statement with which the CA is concerned in a professional capacity.
iii. Failure to exercise due diligence and being grossly negligent in the conduct of professional duties.
iv. 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.
v. Failure to invite attention to material departure from the generally accepted procedures of audit applicable to the circumstances.

18. The EP vide letter dated 26.10.2022 requested for extension of time for submission of reply, which was granted up to 11.11.2022. The EP submitted his reply vide email dated 17.11.2022, which also contained some new working papers as additional evidence. The EP submitted that he had not been provided with full SFIO investigation report, the MCA letter to SFIO and the letter of SFIO to NFRA. In this regard, it is noted that the EP had been provided as annexures to the SCN the relevant extracts of the SFIO investigation report that contained 1,351 pages relating to the fraud and financial irregularities being investigated by SFIO in respect of entire SRS Group. The SCN also provided an opportunity for a personal hearing to the statutory auditor, which was availed by him on 03.03.2023.

19. We have perused all the material on record including the written and oral responses of the EP. The failures on the part of the EP to fulfil responsibilities relating to a suspected fraud in Trade Receivables and Inventories, Going Concern, Audit Documentation, are identified as major lapses and are discussed in Part 'C' of this Order. Other lapses viz. failure in fulfilling duties related to Engagement Quality Control Review, compliance with the requirements of Joint Audit, evaluation of Plant, Property and Equipment etc., have been discussed in Part 'D' of this Order.

Part C: Major Lapses in the Audit

C.1 Suspected Fraud: Lapses in fulfilling auditor's responsibilities

20. The EP was charged with failure to adhere to the responsibilities relating to fraud/suspected fraud as required by para 16 and 24 of SA 240[2] which states that while performing risk assessment procedures, the auditor shall perform the procedures to obtain information for use in identifying the risks of material misstatement due to fraud. Further, the auditor shall evaluate whether the information obtained from the other risk assessment procedures and related activities performed indicates that one or more fraud risk factors are present.

21. In his written reply, the EP submitted that during the course of audit, he came to know about the FIR against the then Managerial Personnel of SRS Group including its chairman lodged on 04.03.2018 and the company's intimation dated 07.05.2018 to the stock exchanges about the fraud/ default by promoters or key managerial personnel or arrest of key managerial personnel or promoter. The EP stated that they made enquiry with the management of the company on 06.12.2018 however, no substantial information about the alleged fraud/default/arrest was made available by the management and also no other fraud or suspected fraud was identified or informed by the management or any other personnel. The EP further stated that by keeping a prudent and conservative approach of Section 143(12) of the Act, he ended up reporting the matter to the MCA in the form of ADT-4 on 10.12.2018, although they were not obligated to report the same as alleged fraud/default/arrest was not identified by the auditors but by the company. The EP has also stated that the FIR and its intimation to the stock exchanges posed risk of fraud or material misstatement in financial statements, and therefore with sceptic mindset they extensively did internal control checks, analytical procedures, substantive testing and sampling as required by para 22-24 of SA 240 such as sending balance confirmations, identifying operational and non-operational sites, obtaining agreements relating to vendors to identify the validity and expiry, physical verification of fixed assets, examining unusual and high value transactions etc. and as a result of such audit queries, the discrepancies that were identified were duly accommodated in the financial statements of the company in form of making provisions of doubtful debts (₹ 1,295.01 crores), provisions for doubtful recoveries of advance to suppliers & creditors (₹ 8 crores), provision for advances to employees (₹ 1.31 crores), provision for security deposits (₹ 0.26 crores), writing off fixed assets (₹ 9.08 crores) and examining advance received (₹ 50 crores) etc.

22. We find that the reply and explanation given by the EP are misleading as there is no documentation in the Audit File to show that analytical procedures and substantive testing as claimed by the EP in his reply to the SCN were performed by the EP as required by SA 240. There were several strong indications of unusual and suspicious activities as follows:

i. There was a drastic decline in the inventory level from ₹ 208.22 crore on 1 April 2017 to ₹ 0.48 crore on 31 March 2018.

ii. Huge provisions were made against the Trade Receivables during the preceding year (₹ 93.16 crore), which had increased dramatically to ₹ 1295.01 crore in 2017-18.

iii. The Company had filed a report with BSE/NSE in May 2018 that its chairman had been arrested for fraud.

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[2] Standard on Auditing 240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements (SA 240)

Yet, we do not find any audit evidence in the Audit File that the EP performed the required audit procedure. The claim of the EP in his reply to the SCN that he performed audit procedures as a result of which the company made provisions for the doubtful debts etc. is therefore dismissed as an afterthought.

23. An auditor is duty bound to exercise due professional care and professional skepticism in performance of the audit that includes a questioning mind and a critical assessment of the audit evidence. More so, since the audit firm and the EP were the auditors of the company for the previous FY i.e., 2016-17 also, they were privy to the operations and goings on in the company and were therefore required to be more alert and vigilant to the existence of fraud risk factors.

24. We find that the EP had reported, in clause (x) of CARO report, that the company had intimated the stock exchanges regarding the fraud/default by the promoters/key management persons/entity involving estimated amount of ₹ 10-11 crores. However, we note that the EP had ignored other strong indicators of several other potential frauds. We note that the company had provided for unusually high amounts of doubtful debts (under Trade Receivables) of ₹1295.01 crores as on 31 March 2018 compared to ₹ 93.16 crore in the previous year 2016-17. The Audit File has no evidence that the EP had applied professional skepticism to probe and report on the potential fraud reflected by such huge amounts of provisioning and their eventual write off. Similarly, we find that there was a drastic decline in the inventory from ₹ 208.22 crore to ₹ 0.48 crore only (decline of 99.76%) but there is no evidence in the Audit File of a sound audit examination of the reasons of this decline. Both these events led to the net worth of the company turning into negative (minus ₹ 977.4 crores as of 31.03.2018) as against the positive net worth of ₹ 483.46 crores as of 31.03.2017. All these adverse indicators in the financial affairs of the company should have aroused the EP's suspicion and professional scepticism about the possibility of fraud in the company. However, instead of performing detailed audit procedure in the matter the EP made a casual and irresponsible statement in his audit report that "*Based upon the audit procedure performed……, we are unable to comment whether or not there was any fraud by the company or on the company by its officers or employees*."

25. We also note that the EP had also issued quarterly review reports on internal financial results of the Company for three quarters viz. quarters ending 30.06.2017, 30.09.2017 and 31.12.2017 during the FY 2017-18. These quarterly review reports were qualified on account of uncertainty about recovery of trade receivables, and non-compliance with the provisions of the Act relating to creation of deposit repayment reserves and highlighted the company's difficulties in repaying the Bank's credit facilities. More importantly, the quarterly review report dated 13.02.2018 for the quarter ending 31.12.2017 was qualified on account of erosion of net worth due to write off of huge amount of trade receivables of ₹ 825.34 crores. It is evident that the EP was aware of these strong indicators of serious mismanagement and potential fraudulent transactions in the company much before he came to know of the FIR against the Chairman of the Company on 06.03.2018. However, these indicators failed to arouse his suspicion which is difficult for anyone to believe and for the EP to justify. In spite of these alarming signals, the EP did not initiate steps that are required under section 143 (12) of the Act read with Rule 13 of Companies (Audit and Auditors) Rule 2014 for reporting the matter to the Central government. Instead, the EP confined himself to reporting to the Central Government through ADT-4 filing dated

10.12.2018 a fraud committed by the promoters/key management persons/entity, which the company had already intimated to the stock exchanges on 07.05.2018.

26. The replies and explanations given by the EP regarding his claim of having done extensive audit work with reference to para 22-24 of SA 240 are misleading and are not supported by audit documentation. This is evident from the following discussion:

i. Para 22 of SA 240 requires the EP to evaluate the possibility of Risk of Material Misstatement (RoMM) due to fraud based on the unusual or unexpected relationships identified by performing analytical procedures. However, the audit work papers references (Page No. 91 -94 of Audit File No.2, annexed as Exhibit 1 with this order) given by the EP are routine audit queries or requests for some client documents and by no stretch of imagination can be called analytical procedures. The EP has either no knowledge/experience of analytical procedures or is trying to mislead the NFRA to cover up his gross negligence as an auditor.

ii. Para 23 and 24 of SA 240 require the EP to evaluate the possibility of RoMM due to fraud based on other information obtained about the entity and its environment. However, we find that the audit work relied upon by the EP, as discussed below, does not provide any confidence in the quality and integrity of the audit work performed by the EP:

a) In respect of the examination of unusual and high value transactions, the EP has referred to work papers relating to enquiry about high value (₹ 50 crores) advance received from a third party and outstanding debit balance of ₹ 0.31 crores. These work papers (Page No. 77-78 Annexure R-10 of reply to SCN, annexed as Exhibit 2 with this order) are copy of email sent by the EP and cryptic reply sent by that third party saying, *"will check and get back to you on below confirmation"*. There is no evidence of what further audit work was done on this and how the misstatements, if any, were resolved. This reflects casual and incomplete work of the EP in respect of such unusual and high value amounts.

b) In respect of provision of huge amount of ₹ 1,295.01 crores for doubtful trade receivables, the EP has referred as audit evidence to an email sent by an official of the company with four attachments with file names "Advance to Creditors", "Advances to employees", "Advances to Suppliers' and "Trade Receivable' (Page No. 75 Annexure –R-8 of reply to SCN annexed as Exhibit 3 with this order), though the detailed contents of the attachments have not been provided. We note that though the substantial amount of trade receivables for which the provision was made apparently related to the Gold and Jewellery Division, which was audited by the other Joint Auditor, there is no evidence that the EP exercised due care and diligence before signing off on the provision of ₹ 1,295.01 crores for doubtful debts in the joint audit report which made a false statement that the audit had been carried out in accordance with the applicable SAs. There is no indication in the audit work papers whether any discussion took place between the EP and the other joint auditor with respect to the sudden provision for doubtful receivables of huge amount.

c) Para 8 of SA 230 states that the auditor shall prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand, among other things, the nature, time and the extent of the audit procedure performed. Our review of the EP's work relating to obtaining confirmations of outstanding balances of debtors, creditors and advances received does not give a satisfactory account of the audit work performed nor does it reflect the seriousness of the audit work, particularly, in the circumstances where there was suspicion of fraudulent activities as indicated by mysterious charge off of abnormal amounts to the profit or loss account. The audit work papers found on page 1 to 285 of Audit File 4 indicate a casual and cavalier approach by the Auditor; there is no clarity on what was the population size of the balances for obtaining confirmations, the sample selection approach, the extent of testing (coverage percentage), who performed and who reviewed the audit procedure, and more importantly, how the discrepancies were dealt with by the EP. As a result, an experienced auditor having no previous connection with the audit cannot make any sense out of these work papers, therefore there is a serious breach of compliance with the requirements of SA 230.

d) In respect of audit samples, it can be seen from the audit query sheets that the auditor has done sampling in a very superficial manner as he left the sample selection at the discretion of the company management as seen from his request to the company *"Kindly provide the workings for the below mentioned expenses along with 10 Vouchers of highest value each for respective segment."* This is not what is required to be done under SA 530[3] relating to audit sampling.

iii. In this regard, the EP's claim in his reply that he had performed internal control checks, analytical procedures, substantive testing and sampling as required by paras 22-24 of SA 240 is baseless as there are no audit documents which demonstrate performance of any such internal control checks and procedures.

27. In light of the foregoing, we find that the EP displayed gross negligence and complete lack of due diligence in ignoring strong indicators of potential fraud and thereby not fulfilling his responsibility under section 143 (12) of the Act and his duty in accordance with SA 240.

C.2 Failure to comply with the requirements of SA 230[4] read with para 75 of SQC 1[5]

28. The EP was charged with failure to adhere to the responsibilities relating to audit documentation as required by SA 230 read with para 75 of SQC 1, which requires preparation of audit documentation on a timely basis, documentation of the nature, timing and extent of audit procedures such as who performed the audit procedures, when such audit procedures were performed, who reviewed the audit work, what discussion of significant matters took place with management & TCWG[6] etc. and the assembly of the Audit File within 60 days after the date of the auditor's report.

29. The EP has responded to the charge vide para 16 of his reply stating that the charge is incorrect, wrong and denied. However, the EP has not given any explanation, reasons and documentation to support his denial of the charges.

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[3] Standard on Auditing 530, Audit Sampling (SA 530)
[4] Standard on Auditing 230, Audit Documentation (SA 230)
[5] Standard on Quality Control 1, Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements.
[6] Those Charged with Governance (TCWG) – refer para 6(a) of Standard on Auditing 260, Communication with Those Charged with Governance (SA 260)

30. Our analysis of the EP's reply and other related material shows that:

i. The Audit File lacked many significant and critical working papers such as-

a. Audit Plan and Audit Programme;
b. Working papers for setting materiality and performance materiality;
c. Auditor's evaluation the appropriateness of management's use of the going concern assumption;
d. Auditor's assessment of the fraud risk in the company;
e. Details of the EQCR, its team and the review work performed by the EQCR;
f. Minutes of the meetings amongst the members of engagement team, with joint auditors, with management and TCWG.

ii. Virtually, most of the Audit Work Papers submitted do not meet any of the basic requirements of Para 8 and 9 of SA 230 reproduced below:

"8. The auditor shall prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand: (Ref: Para. A2-A5, A16- A17)

(a) The nature, timing, and extent of the audit procedures performed to comply with the SAs and applicable legal and regulatory requirements; (Ref: Para. A6-A7)

(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. (Ref: Para. A8-A11)

9. 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; (Ref: Para. A12)

(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. (Ref: Para. A13)"

iii. Further, we find that the index of Audit File no. 1 submitted by the EP shows Audit Programme at page number 146-147, but the Audit File contains page no. 1 to 145 only and does not include any audit program in it. This indicates the Audit File had not been completed even by the date of submission to NFRA i.e., 31.08.2022. Based on the date of audit report of 06.02.2019, the Audit File was required to have been archived by 07.04.2019. That the Audit File had remained incomplete even by the date of submission to NFRA shows that it remained prone to tampering and its integrity was doubtful.

iv. Tampering with the integrity of the Audit File has been a serious concern and casts a shadow on the audit work. In a number of cases, the PCAOB[7], U.S. Regulator has held the auditor guilty of noncompliance with the professional behavior and initiated penal actions against the auditors for tampering with the Audit Files subsequent to the date of audit report and/or archival of the Audit File and imposed severe penalty.

31. Appropriate & timely documentation of the audit procedures performed, audit evidence obtained, conclusions drawn by the EP and the archival of the complete audit documentation within a reasonable time is the backbone of the integrity of audit. It is the audit documentation which acts as evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements. Further, audit documentation acts as the basis for the audit opinion drawn in the audit report.

32. Inadequate, improper documentation and non-archival of Audit File within the stipulated time is a serious deficiency in performing an audit. In absence of proper audit documentation, there is no way for us to ascertain whether the required audit procedures were performed at all. Therefore, we are left with no option but to draw a conclusion that the audit work as claimed was not performed.

33. Therefore, we find the reply and explanation of the EP unacceptable and conclude that the EP was grossly negligent in performing his duty in accordance with SA 230 and Para 75 of SQC - 1.

C.3 Lapses relating to Going Concern basis of accounting

34. The EP was charged with noncompliance with SA 570[8] which deals with auditor's responsibilities in the audit of financial statements relating to a 'Going Concern'. As on 31.03.2018, the Company had several adverse indicators in the financial statements that could raise serious doubts about the 'Going Concern' assumption. Such indicators included:

i. A net loss of ₹1,460.87 crores in the FY 2017-18 and accumulated losses of ₹ 1,384.69 crores as on 31.03.2018.
ii. Negative net worth of ₹ 977.40 crores due to provision for doubtful trade receivables, advances and write off of PPE and Inventories etc.
iii. Obligations towards fund-based borrowings aggregating to ₹1,007 crores and towards public deposits aggregating ₹ 89.03 crores.
iv. Defaults in repayment of borrowings from banks amounting to ₹ 1,001.28 crores (Principal and Interest).
v. Discontinuation of many business divisions.

Despite deterioration in the financial position as indicated above, the financial statements were prepared on the assumption that the entity was a 'Going Concern' and would continue its operations for the foreseeable future.

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[7] KPMG Assurance and Consulting Services LLP and Sagar Pravin Lakhani (Dec 2022), KPMG Singapore- Tan Joon Wei (2021), Deloitte LLP Canada (2021), BDO-Mexico (2019), Deloitte Brazil (2016)
[8] Standard on Auditing 570, Going Concern (SA 570)

35. In such situations, Para 12 read with Para A7 and A9 of SA 570, requires the EP to evaluate management's assessment of the entity's ability to continue as a Going Concern.

36. In his written reply, the EP submitted that he attempted to evaluate the management's assessment of the Going Concern by sending an e- mail dated 24.09.2018 inquiring about the going concern assumption for the preparation of financial statements of the company for FY 2017-18. The management vide its email dated 30.102.18 replied that CIRP was initiated against the company vide order dated 21.08.2018 passed by Hon. NCLT, Chandigarh Bench and an IRP professional had been appointed who was making effort to manage the company as Going Concern.

37. The EP further stated that he had discussions with the management on the projected revenue from the operational divisions/ segments of the company to evaluate the management's assessment of going concern; however, no documentations were provided by the management to substantiate the going concern assumption except a management representation letter (MRL) dated 06.02.2019 stating that resolution and revival of the company was possible in foreseeable future.

38. The EP concluded that he found the responses of the management not tenable to substantiate the company's ability to continue as going concern and, based on the evaluation of the past and the current indicators like the ongoing CIRP, discontinuance of divisions/ segments, losses in the previous financial year, financial crunch, the company's inability to pay off its debt obligations, statutory dues, creditors etc on timely basis and the absence of concrete projections/ information on the revival of the company, he believed that there were sufficient indicators to conclude that material uncertainty existed about the company's ability to continue as going concern and accordingly, in compliance with para 23 of SA 570, he gave a Qualified opinion.

39. We have considered the reply of the EP and other relevant material on record and find that:

i. There is no evidence in the Audit File of any assessment having been made by the EP of the Going Concern assumption. 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. There is no evidence of the EP having evaluated these indicators.

ii. Para 23 of SA 570 states that if adequate disclosure about the material uncertainty is not made in the financial statements, the auditor shall express a qualified opinion or adverse opinion, as appropriate, in accordance with SA 705 (Revised). Para 8 of SA 705 (Revised) requires that the auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.

iii. In the present case, the EP concluded that material uncertainty existed about the company's ability to continue as going concern and expressed a qualified opinion on this basis without adequately documenting it. However, the EP failed to comply with paragraph 23 of SA 570 that if adequate disclosure about the material uncertainty is not made then the auditor shall express a qualified opinion or adverse opinion, as appropriate, in accordance with SA 705. In terms of paragraph 7 and 8 of SA 705 an auditor shall express an adverse opinion if the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements are both material and pervasive to the financial statements. In other words, while the Audit File should provide adequate justification for the EP going for either qualified or adverse opinion in accordance with SA 705, there is nothing in the Audit File to support the EP going for a qualified audit opinion without determining whether the material uncertainty was also pervasive. The indicators as mentioned in para 33 and para 37 above as mentioned by the EP in his reply, are prima facie not only material as concluded by the EP but also pervasive in nature. But the EP has not documented the basis for his decision to give a qualified opinion as against the other option of adverse opinion. Therefore, we find that the EP was not in compliance with SA 570 and 705 insofar as it relates to the EP's audit opinion.

40. The Auditor's Opinion in the audit report holds very high value as it is an assurance given by the auditor to the stakeholders about the True and Fair status of the financial statements. The auditor's failure to give an appropriate audit opinion in accordance with the SAs and other applicable law is not just negligence of the fundamental principle of *professional competence* and *due care* given in Code of Ethics[9] but is also an act of breach of trust and misleading all the users of the financial statements.

41. We, therefore, find the reply and explanation of the EP unacceptable, and hold him grossly negligent in performing his duty in accordance with SA 570 and SA 705.

Part D: Other Lapses in the Audit

D.1 Failure to comply with the requirements of SA 300[10] and SA 320[11]

42. The EP was charged with failure to develop and document the audit plan and audit strategy that sets the scope, timing, and direction of the audit as required by SA 300 and with failure to determine materiality for the financial statements as a whole while establishing the audit strategy as required by SA 320.

43. Responding to the charge related to SA 300, the EP in his written reply stated that he established the overall strategy, plan, programme and checklist for the audit of SRS Limited for FY 2017-18 which he also intended to submit as a part of Audit File No. 1 on pages 146-147, however due to an inadvertent error, the same got left to be attached in the Audit File. The EP in his written reply to the SCN, has attached a copy of his audit strategy, audit plan, audit program and checklist as Annexure R-23 to the SCN.

44. Responding to the charge related to SA 320, the EP stated that the materiality was set at 1% of the total assets and performance materiality was set at 75% of the overall materiality. The EP also attached a document as Annexure R-23 related to audit program which contained one paragraph on materiality.

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[9] Code of Ethics 2009, issued by ICAI
[10] Standard on Auditing 300, Planning an Audit of Financial Statements (SA 300)
[11] Standard on Auditing 320, Materiality in Planning and Performing an Audit (SA 320)

45. Our analysis of the EP's reply and other related material shows that:

i. There is no documentation in the Audit File regarding audit plan, audit strategy and setting of materiality. The EP submitted a document along with his reply to the SCN which does not bear any sign, seal or date rendering its authenticity and integrity doubtful.

ii. The document submitted by the EP as R-23 and captioned as Audit Programme for 2017-18 was not a part of the Audit File. It is a 2 (Two) page document (annexed as Exhibit 4 with this order) establishing overall strategy, plan, programme and materiality. Its authenticity and integrity are highly doubtful as it does not bear any date and signature of the EP or Engagement Team Members or EQCR or that of other Joint Auditor, nor does it bear any seal of the Audit Firm. The action of the EP in producing documents that were not part of the Audit File and that remain unauthenticated show his negligence and lack of due diligence apart from leaving scope for tampering of the Audit File subsequent to the audit. However, without prejudice to this foregoing, we have reviewed these pages and observe as follows:

a. It contains generic statements about the 'Audit Objective' and does not mention about the basic aspects like which entities they are auditing, the group structure of the audited entity, the legal framework under which the audit is being performed, details of the other Joint Auditor, their key reporting obligations such as CARO, ICFR[12] etc., in addition to the report on audit u/s 139 of the Act, their review engagements of quarterly financial results under SEBI LODR etc.

b. In Sub-section 5 of the so-called audit strategy and plan document, the EP has documented his work on determination of Materiality and Performance Materiality. Here, the EP has only attempted to document the conceptual basis of determining quantitative threshold of Materiality and Performance Materiality i.e., 1% of the total assets and 75% of the overall materiality, respectively. The EP has neither quantified the actual amount of Materiality nor mentioned specific details of benchmark i.e., the date as of which the total assets were considered for computing this materiality, the actual amount of total assets on that date, whether this was based on total assets of the Company as a whole or those of the divisions under his audit responsibility etc. Further, the EP has not documented justification for setting the Performance Materiality at a high percentage (75%) of overall materiality.

c. The other audit work papers (which are mostly query sheets or ledger copies) submitted by the EP have no reference to any of the so-called audit plan or audit programme document, which clearly evidences that this so-called audit strategy and plan document was manufactured in response to the SCN issued by NFRA.

46. The preparation of the audit plan and strategy by the EP is a fundamental building block of an audit. Further, determining materiality is of such critical importance in an audit that para 10 and 11 of SA 320 use the expression 'shall' to put the unconditional obligation on the part of the EP to determine materiality. By failing to plan the audit and set materiality, the EP has exhibited a casual approach towards the audit of a PIE. We therefore find that the EP was

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[12] Internal Control over Financial Reporting (ICFRR, Auditor's additional reporting requirement under section 143 (3)(i) of the Act

grossly negligent in performing his duty and failed to comply with the requirements of SA 300 and SA 320.

D.2 Lapses in fulfilling duties related to Engagement Quality Control Review (EQCR) Partner

47. The EP was charged with failure to comply with the requirement of para 19 (a) of SA 220[13] which states that for the audits of financial statements of listed entities, the EP shall determine that an EQCR has been appointed. Further, the EP shall not date the auditor's report until the completion of the engagement quality control review.

48. In his written reply, the EP stated that Mr Apoorve Bansal (Chartered Accountant and Lawyer) having rich knowledge and diverse experience was appointed as the EQCR and discussed matters with him on emails as well as in person during the audit and his contribution proved to be vastly crucial to conclude the audit. In his email dated 02.03.2023 to NFRA, Mr Apoorve Bansal stated that he was the EQCR for the statutory audit of SRS Limited for the FY 2017-18 and his appointment was a verbal appointment; that he qualified as a Chartered Accountant in May 2016, had worked only with SVP & Associates and had not worked as an Audit Engagement Partner of any listed entity. The firm in its email dated 14.03.2023 stated that the appointment of CA Apoorve Bansal remained to be documented by the concerned personnel. Mr. Apoorve Bansal accompanied the EP in the oral hearing held on 03.03.2023 and confirmed that he was the EQCR but there was no formal appointment.

49. From our analysis of the EP's reply and other related material we find that:

i. There is no formal appointment of the EQCR in the audit engagement and the EP has failed to ensure the determination of an EQCR for the audit of a listed entity in accordance with SA220. Further, the EP has misled NFRA by portraying CA Apoorve Bansal as having rich knowledge and diverse experience which is contradicted by CA Apoorve Bansal himself by informing about his inexperience (he qualified as a CA in May 2016 only) and lack of expertise of auditing listed companies, which fails to meet the requirements of para 68 of SQC 1.

ii. The EP attached certain emails exchanged between him and the EQCR, which were not in the Audit File. The emails dated 1.10.2018, 8.10.2018, 9.10.2018 and 10.11.2018, with the attachments titled "Management Query", "SRS Ltd audit queries", "SVP Query Draft Notes for balance sheet" respectively, do not clearly indicate the nature of queries, whether they related to any significant matters or how they were resolved.

50. In the audit of financial statements of a listed entity, the role of an EQCR is important for ensuring quality, as the EQCR evaluates the significant judgments made by the engagement team, 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.

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[13] Standard on Auditing 220, Quality Control for an Audit of Financial Statements (SA 220)

51. In the absence of any documentary evidence of EQCR review, other than a few email exchanges, such as signature on audit work papers relating to significant matters or any sign off memo on the financial statements, one cannot conclude whether CA Apoorve Bansal was indeed appointed as EQCR and performed the role of EQCR as envisaged under para 20 and 21 of SA 220.

52. The submissions made by the EP and EQCR are misleading, false and are in breach of the *fundamental principal* of "*Integrity*" and "*Professional Behaviour*" of the *Code of Ethics* issued by ICAI.

53. The EP is found not only grossly negligent in performing his duty in violation of SA 220 but also guilty of submitting false and misleading information.

D.3 Failure to comply with the requirements of Joint Audit

54. The EP was charged with failure to adhere to the responsibilities relating to joint audit as required by para 2 and para 3 of SA 299 which states that the joint auditors shall mutually discuss and divide the audit work between themselves in terms of audit of identifiable units or specified areas and this division should be adequately documented.

55. In his written reply, the EP submitted that the work relating to the audit of SRS Limited for the FY 2017-18 was discussed between both the firms i.e., SVP & Associates and Oswal Sunil & Company and they mutually agreed to the work allocation in terms of SA 299 which clarifies the division of work between joint auditors. The EP also annexed a copy of an e-mail dated 29.07.2017 showing the division of work. He categorically stated that the work allocation was not decided by the management of the company. The EP also stated that the statement made by him to the SFIO that the division of audit work had been made by Anil Jindal, Chairman and Managing Director of SRS Ltd, cannot be relied upon because the statement was obtained from him by employing pressure tactics and putting him under mental stress and panic.

56. Our analysis of the replies by the EP and related documents shows that:

i. In accordance with the requirement of para 2 and para 3 SA 299, the EP was professionally duty bound to document the division of work among joint auditors and the areas of work to be covered by them. But no such documents were found in the Audit File. Further, the document attached by the EP with the email dated 29.07.2017 at Exhibit 5 annexed with this order, though bound to be rejected as it is not part of Audit File, is a generic document and does not reflect the detailed division of the audit work between the joint auditors as required by SA 299. Further, the said document does not bear any seal and signature of the joint auditors thereby raising serious doubts about the genuineness and integrity of such an important document.

ii. The claim of EP that his statement regarding the work distribution between the joint auditors was decided by Mr Anil Jindal, Chairman and Managing Director of SRS Ltd was obtained by SFIO employing pressure tactics and putting him under mental stress and panic does not carry any credence given the lack of adequate documentation in the Audit File regarding the division of work. In the absence of any evidence of the joint audit having been mutually decided, we find that the EP compromised with the basic principle of independence of the auditor by allowing the Company's management to decide the allocation of work between the joint auditors.

57. We therefore, find the EP to be grossly negligent by not adhering to the requirements of para 2 and para 3 SA 299 which requires mutual discussion and adequate documentation of the division of work.

D.4 Non-compliance with provisions of the Companies Act 2013

58. The EP was charged with failure to comply with Section 143 (9)[14] of the Companies Act, 2013 which requires that every auditor shall comply with the SAs.

59. Responding to the charge, the EP in his written reply stated that the Auditing Standards are a set of guiding principles, and he has complied with the relevant guiding principles laid down by the SAs while conducting the audit of SRS Ltd.

60. From our analysis of the EP's reply and other related material we find that:

i. The reply and explanation given by the EP are baseless and misleading in the view of the errors and omissions mentioned in the foregoing paragraphs of this Order wherein the non-compliance with various SAs stands proved.

ii. The EP appears to be ignorant of the fact that the Requirement section of the SAs, in effect since 01.04.2008, use the word "Shall", as opposed to the earlier "Should' in line with the change in the ISAs[15] issued by the IAASB[16] pursuant its clarity project. In view of this, there is no merit in the averment of the EP that SAs are simply a set of guiding principles, when they are mandatory obligations on the part of EP.

61. Thus, the reply and explanation of the EP cannot be accepted and we, therefore, find that the EP was grossly negligent in performing his duty in violation of Section 143 (9) of the Companies Act, 2013.

D.5 Failures in Evaluation of Property, Plant and Equipment (PPEs)

62. The EP was charged with failure in evaluation of PPEs of the company amounting to ₹ 88.07 crores in violation of Para 15, 16 of SA 200[17] and Para 6 of SA 500[18].

63. Responding to the charges, the EP in his written reply stated that the statutory audit of SRS Limited for the FY 2017-18 was a joint audit and hence there were divided responsibilities between the joint auditors including physical verification of PPEs. Also, of the total value of PPEs of the company as on 31.03.2018, whose physical verification was not done, only PPEs worth ₹ 9 lacs pertain to him while PPEs worth ₹ 88.04 crores pertain to the other joint auditor.

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14 Section 143 (9): Powers and duties of auditors and auditing standards.
15 International Standard on Auditing (ISA) issued by the IAASB
16 International Auditing and Assurance Standards Board (IAASB)
17 Standard on Auditing 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing (SA 200)
18 Standard on Auditing 500, Audit Evidence (SA 500)

64. In the light of this reply of the EP, the charge stands dropped.

D.6 Failure to report non- compliance with Ind AS 36 Impairment of Assets

65. The EP was charged with failure to report noncompliance with Ind AS 36 Impairment of Assets.

Responding to the charges, the EP in his written reply stated that investments in SRS Entertainment India Ltd amounting to ₹ 26.66 crores and SRS Smart Retail Ltd amounting to ₹ 0.10 crores were recorded in the accounts of "Corporate division/ segment" of the company which was under the purview of the other joint auditor i.e., Oswal Sunil & Company as per the division of work.

66. Considering the EP's reply, the charge against him stands dropped.

D.7 Inadequate disclosure under Companies (Auditor's Report) Order, 2016

67. The EP was charged with inadequate disclosure under CARO wherein the EP failed to report the periods of defaults in repayment of loans or borrowings to financial institutions, banks, government, or dues to debenture holders.

68. Responding to these charges, the EP in his written reply stated that in accordance with the division of the work the "Loan in all respect" was the responsibility of the other Joint Auditor.

69. Considering the reply of the EP the charge stands dropped.

E. ARTICLES OF CHARGES OF PROFESSIONAL MISCONDUCT

70. Given the above-mentioned actions and omissions, it is established that CA Pankaj Kumar, EP showed gross negligence and lack of due diligence. The EP has been found to be grossly negligent in professional duties by not adhering to the requirements laid down by the Companies Act, 2013 and relevant Standards on Auditing. This has led to the issuance of an audit report not backed by valid audit evidence and the absence of quality in the audit work. Specifically, the following failures on the part of CA Pankaj Kumar, EP as contained under the Articles of Charges in the SCN are established:

a) CA Pankaj Kumar committed professional misconduct as defined 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 (no. 38 of 1949) as amended from time to time, which states that an EP is guilty of professional misconduct when he *"fail 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 he is concerned with that financial statement in a professional capacity"*

This charge is proved as the EP failed to disclose in their report the material non-compliances the company made as explained in C and D above (except for the dropped charges).

b) CA Pankaj Kumar 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 (no. 38 of 1949) as amended from time to time, which states that an EP is guilty of professional misconduct when he, " *Fail 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 EP failed to disclose in his report the material misstatement the company made as explained C and D above (except for the dropped charges).

c) CA Pankaj Kumar 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 (no. 38 of 1949) as amended from time to time, which states that an EP is guilty of professional misconduct when he, "does not exercise due diligence, and being grossly negligent in the conduct of professional duties".

This charge is proved as the EP failed to conduct the audit in accordance with the SAs and applicable regulation, failed to report the material misstatements in the Financial Statement and failed to report non-compliance made by company, as explained C and D above (except for the dropped charges).

d) CA Pankaj Kumar committed professional misconduct as defined 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 (no. 38 of 1949) as amended from time to time, which states that an EP 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 EP failed to conduct the audit in accordance with the SAs and applicable regulation, as well as due to their total failure to report the material misstatements and non-compliances made by the company in the Financial Statements, as explained in C and D above (except for the dropped charges).

e) CA Pankaj Kumar 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 (no. 38 of 1949) as amended from time to time, which states that an EP is guilty of professional misconduct when he, "Fails to invite attention to material departure from the generally accepted procedures of audit applicable to the circumstances".

This charge is proved as the EP failed to conduct the audit in accordance with the SAs and applicable regulation as explained in C and D above (except for the dropped charges).

71. Thus, EP Pankaj Kumar committed professional misconduct, as defined in the respective clauses of the Chartered Accountants Act, 1949, the meaning of which is conceived under Section 132 (4) of the Companies Act as amounting to professional misconduct.

F. PENALTY and SANCTIONS

72. 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.

73. Independent Auditors of Publicly Listed Companies are expected to demonstrate sufficiency and appropriateness of audit work in every aspect of the critical building blocks of an audit of financial statements of PIE. Failure of the auditor to meet the requirements envisaged under the Law and contemporary professional Standards on Auditing has been the hallmark of this audit engagement performed by the EP.

74. As is set out in this order, the manner in which the audit 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 a serious lack of competence on the part of the EP.The dismal state of quality of audit performance in this engagement can be gauged from the failure of the EP to critically assess the abnormal state of affairs of the Company and its financial condition indicating existence of fraudulent transactions/activities in the company, and gross negligence towards adherence to mandatory SAs in the preparation of audit working papers.

75. As detailed in this order, substantial deficiencies in audit, the abdication of responsibility and inappropriate conclusions on the part of EP, CA Pankaj Kumar, establishes his professional misconduct. In addition, CA Pankaj Kumar has tried to mislead NFRA by giving evasive replies and falsified documents. Despite being a qualified professional, CA Pankaj Kumar has not adhered to the Standards and has thus, not discharged the duty cast upon him as an ethical auditor entrusted with critical role of a watchdog in public interest.

76. We have also explained above that CA Pankaj Kumar lacks the level of knowledge, competence, skill, and the application that is normally expected from such a professional. Under the circumstances, we proceed to impose sanctions on the EP, CA Pankaj Kumar, keeping in mind deterrence, proportionality, and the signalling value of sanctions.

77. 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 ten 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.

78. As per information furnished by M/s SVP & Associates vide e-mail dated 31.08.2022, the statutory audit fees of SRS Ltd for 2017-18 was [redacted]. Considering the fact that professional misconduct have been proved and considering the nature of violations and principles of proportionality, we, in the exercise of powers under Section 132(4) of the Companies Act, 2013, order:

a) Imposition of a monetary penalty of ₹ 300,000/- (Rupees Three Lakhs) upon CA Pankaj Kumar.
b) In addition, CA Pankaj Kumar is debarred for 3 (Three) 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.

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

Sd/-

(Dr. Ajay Bhushan Prasad Pandey)

Chairperson

Sd/-

(Dr. Praveen Kumar Tiwari)

Full-Time Member

Sd/-

(Ms Smita Jhingran)

Full-Time Member

Authorised for issue by the National Financial Reporting Authority,

Vidhu Sood

(Vidhu Sood)

Secretary

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

Date: 21 .04.2023
Place: New Delhi

To

CA Pankaj Kumar
ICAI Membership No-091822
SVP & Associates
1209 New Delhi House
27 Barakhamba Road
New Delhi - 110001
E-mail: svp1209@gmail.com, cavkco@gmail.com

Copy To: -

i. Secretary, Ministry of Corporate Affairs, Government of India, New Delhi.
ii. SFIO, New Delhi
iii. Securities and Exchange Board of India, Mumbai.
iv. Registrar of Companies, Mumbai.
v. Secretary, Institute of Chartered Accountants of India, New Delhi.
vi. IT-Team, NFRA for uploading the order on the website of NFRA.

ANNEXURE

Exhibit 1
(Work paper related to analytical procedure)

Audit Queries. (91)

1. Interest Calculation on NPA Loans
2. Jewellery Business Discontinuation w.e.f. 15-Januay-18
3. Jewellery Business Security Receivable – Notice to be sent by IRP team for recovery
   a. Satish Chand Aggarwal (JEWELS GHAZIABAD) -1674719
   b. Surender Hans (JEWELS NIT FBD) – 1110000
   c. Veena Gupta (JEWELS-KAROL BAGH) – 6800000
4. Imprest to staff (UAE Branch) – write off entry reversed
5. Overseas Branch Closure Note is required from Raju Bansal Ji
6. NCLT Status to be provided from IRP Team (Vijay)
7. Overseas Debtor – provision for doubtful debts to made
8. Double Payment to Public Deposit parties – notice to be issued by IRP
9. Interest on Public Deposits to be provided at normal rate
10. Qube Cinema ledger (debit and credit balances) – No adjustment and to be shown as it is
11. Balance of Sarv Prakash Developer – Agra Cinema – Legal Notice to be send by IRP Team
12. Value Bazaar Security Deposit receivable to be tf to creditor account against rent and net balance to be compared with notice period rent and amount shall be written off.
13. Salary Difference – Due to Neem Salary (a note to be provided to the auditors).
14. Comment on value bazaar stock written off shall be provided with proper justification
15. Provision for doubtful debts to be made
16. Reconciliation with 26 AS to be given.
17. Ind AS Provision reversal to be made through proper head.

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1. **Going Concern** :Since the honourable NCLT has appointed IRP for the company to carry out the function as mentioned under Insolvency & Bankruptcy Code, Going Concern status of the company is questionable. Please explain your view in this regard :

2. **Closure of Value Bazaar Operations** : Since operations of the value bazaar segment has been closed on 31st March 2018, Please clarify the following :

   a. Stock amounting to Rs. 8.65 Crore has been written off in the books. Please justify with suitable evidences.

   b. Fixed Assets having WDV amounting to Rs. 4.74 crores was sold on a consideration of Rs 14 Lacs Resulting in capital loss of Rs. 4.60 Cr Please provide the asset wise sale details. Further justify the capital loss.

   c. Further Interior, Fixtures, electrical fittings etc. having wdv of Rs. 4.61 crores were written off. Please justify the basis of written off

   d. There is security deposit amounting to Rs. 3.39 Crreceivable from the lessor of value bazaar. Further Rent outstanding to the lessor is Rs 1.12 Cr. whether any full and final settlement and termination letter with the parties has been signed. If yes please provide the documents. Where any full and final settlement/termination letter has not signed please explain the recoverability of the security amount.

   e. An amount of Rs. 10.08 Cr is payable to operational creditors. Please explain that how the same will be paid. Also provide the details of claim submitted.

   f. There is other payable to employees / other parties. Please explain that how the same will be paid. Also provide the details of claim submitted.

   g. What are the steps taken / to be taken for the recovery from the parties having debit balances including advances to employees left in the books. Also provide the details of amount doubtful for recovery.

   h. Three Vehicle loan is running in value bazaar. Please provide the physical existence of vehicle and loan status as on date.

   i. Please provide the sale, purchase and Stock report from ginney software for Q4.

   j. Since the value bazaar accounts team has already left who will provide the records

3. **Kindly provide the workings for the below mentioned expenses along with 10 vouchers of highest value each for respective segment.**

The **Security & House Keeping Expenses** for FY 2017-18 are as follows:

a. Management - Rs. 33,99,718

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b. Cinema	-	Rs. 10,11,65,986
c. Value Bazaar	-	Rs. 1,64,14,860

The **Electricity & Water Charges** for FY 2017-18 are as follows:

d. Management	-	Rs. 1,61,55,708
e. Cinema	-	Rs. 4,90,03,247
f. Value Bazaar	-	Rs. 2,59,14,020

The **Insurance Expenses** for FY 2017-18 are as follows:

g. Management	-	Rs. 5,18,549
h. Cinema	-	Rs. 10,28,941
i. Value Bazaar	-	Rs. 5,29,551

The **Repair & Maintenance Expenses** for FY 2017-18 are as follows:

j. Management	-	Rs. 14,12,971
k. Cinema	-	Rs. 1,23,05,866
l. Value Bazaar	-	Rs. 72,02,980

The **Legal & Professional Expenses** for FY 2017-18 are as follows:

m. Management	-	Rs. 1,22,694
n. Cinema	-	Rs. 6,04,367
o. Value Bazaar	-	Rs. 9,99,398

The **Miscellaneous Expenses** for FY 2017-18 are as follows:

p. Management	-	Rs. 14,974
q. Cinema	-	Rs. 18,21,046
r. Value Bazaar	-	Rs. 8,14,363

The **Telephone & Communication Expenses** for FY 2017-18 are as follows:

s. Management	-	Rs. 1,92,691
t. Cinema	-	Rs. 10,95,189
u. Value Bazaar	-	Rs. 17,45,141

The **Travelling & Conveyance Expenses** for FY 2017-18 are as follows:

v. Management	-	Rs. 68,119
w. Cinema	-	Rs. 27,57,242
x. Value Bazaar	-	Rs. 42,42,927

The **Selling & Distribution Expenses** for FY 2017-18 are as follows:

y. Cinema	-	Rs. 37,75,171
z. Value Bazaar	-	Rs. 28,26,996

The **Advertisement Expenses** for FY 2017-18 are as follows:

aa. Cinema	-	Rs. 51,18,356
bb. Value Bazaar	-	Rs. 19,60,555

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The **Lease Rent Paid** for FY 2017-18 are as follows:

cc. Management - Rs. 1,00,79,716
dd. Cinema - Rs. 18,32,13,676
ee. Value Bazaar - Rs. 9,36,08,562

Exhibit 2
(Work paper relate to seeking information related to fraud)

(78)

Gmail Pankaj Bansal <svpassociates83@gmail.com>

Advance adjustment details and confirmation required

Himanshu.Bhadsawale <himanshu.bhadsawale@bookmyshow.com> Fri, Oct 12, 2018 at 11:59 AM
To: Pankaj Bansal <svpassociates83@gmail.com>, Vishal Patil <vishal.patil@bookmyshow.com>
Cc: Naimish Mothreja <naimish.mothreja@bookmyshow.com>

Hi Pankaj,

Vishal will chk and get back to you on below confirmation.

+ Vishal Pls chk and confirm

Thanks & Regards,

Himanshu Bhadsawale

[Quoted text hidden]

Annexure-R-10 (77)

Gmail

Pankaj Bansal <svpassociates83@gmail.com>

Advance adjustment details and confirmation required

Pankaj Bansal <svpassociates83@gmail.com> Mon, Oct 8, 2018 at 3:15 PM
To: himanshu.bhadsawale@bookmyshow.com

Dear Sir/madam,

SVP & Associates and Oswal Sunil & Company are auditing the financial statements of SRS Limited for the financial year ending 2017-18 and wish to obtain details regarding advance amounting to Rs 50 crores given to SRS Ltd during 1st quarter of the said FY which had to be adjusted against future ticket sale, online food sale and service charges.

Further, there is a debit balance amounting to Rs 31,33,932 in the name of big tree entertainment pvt ltd in the books of SRS Ltd which pertains to the period prior to the signing of the advance amount agreement. Kindly provide us the current status of the debit balance. Although a separate confirmation has been sent in this regard, we are sorry for the repetition.

Should you have any clarification, please feel free to contact.

Regards,
Pankaj Bansal
+91 9811228951

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Pankaj Bansal

—
with regards,
CA Pankaj Kumar
SVP & Associates
Chartered Accountant
1209,New Delhi House,27,
Barakhamba Road,Connaught Place,
New Delhi-110001
Tel. no.011-23243288,23272690

Exhibit 3
(Email sent to company)

Annexure-R-8 (75)

Gmail

Pankaj Bansal <svpassociates83@gmail.com>

Details for debtors and advances alongwith provisions for doubtful debts

1 message

VSharma <vsharma@srsparivar.com> Tue, Oct 16, 2018 at 1:17 PM
To: P bansal PB Daryaganj Rohit <svpassociates83@gmail.com>, OSC Auditor <auditor@oswalsunil.com>

PFA

4 attachments

Advance to Creditors.xlsx
17K

advance to employee.xlsx
13K

Advance to Suppliers.xlsx
18K

Trade Receivable.xlsx
27K

Exhibit 4
(Audit Plan, Programme)

(11)

Annexure-R-23

SRS LIMITED

Audit Programme for 2017-18

Sl No.	On the basis of limited review observations, information obtained and preliminary discussion with the entity's personnel, considerations and methodology for performing the Statutory Audit of the aforementioned entity are as follows: -
1	**Audit Objective:-** An annual audit is an independent examination of evidence supporting the amounts and disclosures in the entity's financial statements. We shall also assess the entity's compliance with different authority whether statutory or any other and consider whether, during the course of our examination, we have become aware of any "other matters" that, in our opinion, should be brought to the attention of the Board. The objectives of the annual audit are to provide an independent opinion on whether the financial statements, in all material aspects, have been fairly presented; the accounting standards have been consistently applied in respect to the preceding years; and the transactions coming to our notice in the course of the examination have, in all significant respects, been in accordance with the rules and regulations applicable on the entity including contracts and agreement between the entity and any other private party.
2	**Auditor's responsibility:-** a) obtaining an understanding of the entity and its environment, including internal control, in order to assess the risk that the financial statements may contain misstatements that, individually or in the aggregate, are material to the financial statements taken as a whole; b) examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; c) assessing the accounting principles used and their application; and d) assessing the significant estimates made by management.
3	**Identification of significant audit area:-** Our audit is risk based. This means we shall concentrate our audit work on areas with a higher risk of a material misstatement such as impact of Ind AS adjustments, outstanding balances, abnormal transactions, recording of revenue & expenses, etc. and determining proper recording or reporting of non-compliance of any statutory provision or contractual term.
4	**Audit implications due to significant business events:-** We have identified certain business events and circumstances giving rise to audit risks and implications on financial statements.

Significant Business event	Audit implications on financial statements
Judicial custody of Chairman Anil Jindal and other managerial personnel of SRS group on 6th April, 2018	Such police and judicial action could impact operational efficiency and decision making of the entity as a whole, thus applicability of Ind AS 10 ("Events Occurring after the balance sheet date") needs to be examined on account of adjusting event and appropriateness of going concern assumption and thus whether fundamental change in accounting is required or not. Hence, this could result in a qualification on the auditor's report.
Closure of retail (value bazaar) segment	We need to examine disposal of assets, treatment of significant adjusting entries and the consequent risk of errors in the financial statements. We will also review disclosures in the financial statements to ensure they are complete and accurate.
Initiation of corporate insolvency resolution process (CIRP) under IBC 2016	The entity has been defaulting in payment of its financial dues towards financial institutions, public deposits, statutory dues etc since last FY 2016-17, the trend of which has been continued in the current FY 2017-18 as observed during quarterly limited reviews. Due to said defaults, corporate insolvency resolution process (CIRP) has been initiated against the entity and recently Interim Resolution Professional has also been appointed, thus managing the entity's affair going forward and exercising the powers of Board of Directors. Hence, we need to examine the risk that management estimates accounting are not complete and accurate including the risk of manipulation of results in respect to treatment/ determination/ recording/ carrying forward of amounts, particularly the recoverability of the assets. In relation to this, we need to examine the disclosures to be made in the audit report.

5	**Materiality:-** Materiality refers to extent of misstatement(s) that could be ignored in financial statements as it is assumed that such misstatement if not corrected will not affect the decisions of the stakeholders. Since there is closure of retail and jewellery segments (cash-generating units), hence there is uncertainty about the going concern as well as on the part of the entity meeting its financial obligations towards banks, public deposits, statutory dues etc., hence it is appropriate to consider Total Assets from the perspective of recoverability as an appropriate benchmark for determining materiality. In our opinion, materiality to the extent of 1% of the total assets and performance materiality to the extent of 75% of the overall materiality shall be appropriate. Thus, items below performance materiality may be ignored subject to the risk of being material in aggregate for the overall financial statements.
6	**Fraud & Errors:-** When conducting the audit, we shall consider the possibility that fraud or error, if sufficiently material, may affect our opinion on the financial statements. Accordingly, we shall maintain an attitude of professional scepticism throughout the audit, recognizing the possibility that a material misstatement due to fraud could exist. To identify the possibility of fraud, we can perform certain procedure including but not limited to: - Examining journal entries and other adjustment for evidence of possible material misstatement; - Making inquiries from management and meeting with them, if it's necessary. - Evaluating the business rationale of significant, unusual transactions - Reviewing accounting estimates and treatment of transactions result in material misstatement.
7	**Management Representation:-** As part of our audit process, we may require certain representations from management in writing as they are integral to the audit evidence gathered by us and they are required in writing so that we have appropriate documentation to support the content of our report.

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SRS LIMITED

Audit Checklist for 2017-18 *(on basis of bifurcation of work)*

Date of commencement:- 11.09.2018

Cinema Division	Management (Sector 12 Mall)	Retail Segment (Value Bazaar)	Overall Requirements w.r.t to Cinema, Mall, Value Bazaar
Team Deployed: CA Pankaj Kumar (Sr. Partner), CA Rohit Agrawal, Lavish (Articled Assistant)	Team Deployed: CA Pankaj Kumar (Sr. Partner), CA Rohit Agrawal, Kanchan (Articled Assistant)	Team Deployed: CA Pankaj Kumar (Sr. Partner), CA Kanika Sehgal (Partner), Chetan (Articled Assistant)	Team Deployed: CA Pankaj Kumar (Sr. Partner), CA Kanika Sehgal (Partner), CA Rohit Agrawal
Checking Opening Balance w.r.t 31.12.17 and 31.03.2017	Checking Opening Balance w.r.t 31.12.17 and 31.03.2017	Checking Opening Balance w.r.t 31.12.17 and 31.03.2017	Checking Opening Balance w.r.t 31.12.17 and 31.03.2017
Ledger Scrutiny of Trial Balances, checking and verification of the ledgers	Ledger Scrutiny of Trial Balances, checking and verification of the ledgers	Ledger Scrutiny of Trial Balances, checking and verification of the ledgers	*Internal Audit Report - [illegible]*
Process of booking Box Office collection and their reconcilation with reports of Vista (customised software), obtaining the reasons for discrepancies, if any	Check the Lease rental Income received from the shops with their agreements along with vis-à-vis security deposit receivable	Compliance with Ind AS 05 in respect to discontinued operations	IFC
Process of Foods and beverages sales and their reconcilation with reports of Vista (customised software), obtaining the reasons for discrepancies, if any	Common Area Maintenance (CAM) Charges working. Also need to be checked whether the bill has been raised as per the agreement' area mentioned in that or not along with vis-à-vis security deposit receivable.	Details and valuation of inventory	Salary reconcilation
Check the applicability of Tax holiday scheme as prescribed by the government on construction of cinemas	Scrutiny of Security and House keeping expenses and other expenses as per the Agreements	Verification of Sales with Alif and Gini (customised software) and prepartion of reconcilation if any	Statutory liabilities, including but not limited to,. - - Entertainment tax returns - Service Tax Returns and GST Returns with reconcilations and challans - Income Tax, TDS Returns & challans with Reconcilation - ESIC & PF Challan with reconcilation - Ensuring compliance with other statutory bodies like BSE, NSE
Scrutiny of other revenue streams such as income from advertisement, kiosk rental, commission, etc with respective agreements	Check Lease rental paid with the agreements	List and value of Products discarded and written off	Scrutiny of Fixed Assets (especially written off) including depreciation to be charged
Check the Management fees received from the Cinema's and their agreements	TDS deduction on expenses	Verification of Purchases with Alif and Gini (customised software) and prepartion of reconcilation if any	Details of related party transactions and its disclosures in financial statements including compliance with the statutory provisions
Verification of amount of Entertainment Tax that is collected on account of the sale of tickets, its calculation and reconciliation with challans with special consideration on tax free movies	New agreements entered and old agreements terminated	Details and valuation of inventory and Material transfer made also	Interest certificate of FD's if any
Verification of rules regarding rates for a different class of tickets, benefit shows, free passes, concessional tickets for booking made to groups of the student of schools and colleges, etc	Title deeds of the land and building	Obatain Stock ageing report	Actuarial Valuation as per Ind AS - Gratuity, Leave Encashment
Check the Purchases with reports of Vista (customised software), obtaining the reasons for discrepancies, if any	Prepation of observation and query sheet sent to auditee for their remark. Discussion of observation with management.	Verification of Advertisement income and commission income with the agreements	Working of Provisions to be made and Prepaid Expenses
Check the Distributorship Expense with their respective agreements and reports of Vista (customised software), obtaining the reasons for discrepancies, if any		Verification of Lease rental with the lease agreements	Detail of Suspense Account(if any)
Scrutiny of expenses (relating to commission, advertisement, lease rentals, housekeeping, etc.)		Verification of Inter unit rent, electricity expense and CAM charges	26 AS reconcilation
TDS deduction on expenses		Details regarding commission paid towards credit card and coupon	Details of security deposits receivable & payables
Ratio analysis in relation to revenue streams and expenses category such as distributorship expenses etc w.r.t to previous year		TDS deduction on expenses	Scrutiny of suppliers and service providers. Special consideration to following:- - Provision for expense against advance given - Balance long outstanding
Details and valuation of inventory		Details of capital assets sold, if any	Scrutiny of security deposit receivables and payables. Special consideration to following - - Status of deposits receivables for closed locations - Rental income not booked in case of security deposit payable
Physical Verification of fixed assets		Account Statement, NOC and/or sale details relating to vehicle loans along with any other information as deemed necessary	Sending balance confirmation to selected suppliers, service providers, debtors, trustees, vendors from whom security deposit is receivable and to whom security deposit is payable and any other category identified. In case of [illegible] as per the books balance or absence of confirmation making provisions as per their ageing, if required)
Scrutiny of transactions and agreement for sale of Cinema during the period if any made		*Physical Verification of fixed assets - NA not [illegible]*	(Debit balances in credit accounts (creditors, security deposit payable, etc.) and Credit balance in debit accounts (debtors, security deposit receivable, etc.)) to be checked specially
Film purchased but not shown needs to be accounted for in a proper way		Prepation of observation and queries sheet sent to auditee for their remark. Discussion of observation with management	Cash Certificate by Management
Prepation of observation and queries sheet sent to auditee for their remark. Discussion of observation with management			All Bank statements with reconcilations
			Status of Legal Suits by and against the Company
			Concluding Audit inquiries/ observations
			Final Review of Financial Statements - notes to accounts, grouping, CARO

Exhibit 5
(Work distribution statement)

ANNEXURE - R - 15

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SRS LIMITED
Work Distribution - FY 2017-18

Annexure

S.No.	Particular	OSC	SVP	Joint Responsibility
1	Corporate	Yes	No	No
2	MGM	No	Yes	No
3	Project	Yes	No	No
4	Value Bazar	No	Yes	No
5	7Days	Yes	No	No
6	Cinema	No	Yes	No
7	Jewellary	Yes	No	No
8	WT. Grocery	Yes	No	No
9	Fixed Asset	No	No	Segment wise
10	Physical verfication & FAR Verification	No	No	Segment wise
11	Secretarial	Yes	No	No
12	Loans Bank in all respect	Yes	No	No
13	DTA	No	No	Joint
14	Inventory Valuation	Yes	No	Segment wise
15	Debtors/Creditors confirmation	No	No	Segment wise
16	Statutory Liabialities	No	Yes	All Segment
17	Provisioning for Exp.	No	No	Segment wise
18	Income Tax	No	No	Joint
19	Salary	Yes	No	No
20	Notes to Accounts	No	No	Joint
21	Audit Report	No	No	Joint