

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

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

Order No. - 018/2024

Date: 05.07.2024

ORDER

In the matter of CA Yogesh Mahipal, ICAI Membership No. 530620 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) no. NF-23/41/2022 dated 18.01.2024, issued to CA Yogesh Mahipal, proprietor of M/s Yogesh Mahipal & Associates (ICAI Firm registration no. 030845N), Hanumangarh, Rajasthan, who is a member of the Institute of Chartered Accountants of India ('ICAI' hereafter) and was the Engagement Partner ('EP' hereafter) for the statutory audit of **Vikas Proppant and Granite Limited**, ('Vikas' or 'the company' hereafter) for the Financial Year ('FY' hereafter) 2018-19 and 2019-20.
2. This Order is divided into the following sections:
 - A. Executive Summary
 - B. Introduction & Background
 - C. Lapses in the conduct of audit
 - D. Article of Charges of Professional Misconduct by the EP
 - E. Penalty & Sanctions
- A. Executive Summary**
3. National Financial Reporting Authority (NFRA) is India's independent regulator, in respect of matters relating to accounting and auditing, of prescribed classes¹ of entities broadly described as 'Public Interest Entities' (PIEs).
4. NFRA initiated action under Section 132(4) of Companies Act 2013 against the Auditor of Vikas for professional or other misconduct in relation to Vikas's statutory audit for FY 2018-19 and 2019-20, pursuant to information received from Securities and Exchange Board of India (SEBI hereafter) indicating the failure of statutory auditor regarding provisioning in respect of the Related Party Transactions (RPT), Expected Credit Loss (ECL) and depreciation of lease hold land and plant & machinery.

¹ Rule 3 of NFRA Rules, 2018

5. This Order finds that the auditors failed to meet the relevant requirements of the Standards on Auditing ('SA' hereafter) in respect of several significant areas, reflecting gross negligence and lack of due diligence to perform audit of a Public Interest Entity (PIE). These include:
 - a. The auditor failed to plan the audit and failed to understand the nature of the entity and its environment as per SA 300 and SA 315.
 - b. The auditor failed to evaluate the Internal Audit Function as he incorrectly stated in reply to NFRA that there was no internal auditor for the FY 2018-19 & 2019-2020 which is violation of SA 610.
 - c. The Financial Statements of Vikas were materially misstated due to non-provisioning of the ECL on trade receivables (Vikas had trade receivables of ₹ 175.54 crores for the FY 2018-19 which exceeded three times the sales of ₹ 52.77 crores and the trade receivables for FY 2019-20 were ₹ 170.23 crores which exceeded the twenty-four times the sales of ₹6.96 crore) and not charging depreciation of lease hold land and plant & machinery.
 - d. In addition, the EP did not carry out proper audit of Related Party Transactions ('RPTs' hereafter) of Vikas (trade payables and trade receivables to related parties which were high as almost 100% of total trade payables and 63.84% of total trade receivable respectively).
 - e. The auditors failed to demonstrate sufficiency and appropriateness of audit work in several critical aspects of the audit of the Financial Statements i.e., determining materiality, failure to assemble the Audit File.
 - f. The auditors failed to carry out external confirmation for Trade Receivables or any other alternative audit procedure to verify the audit assertions relating to Trade Receivables.
 - g. The auditors failed to demonstrate compliance with the requirement of the Standards on Auditing concerning the Engagement Quality Control Reviewer.
6. Based on our investigation and proceedings under Section 132 (4) of the Companies Act, 2013 and after giving him opportunity to present his case, we find the EP guilty of professional misconduct and impose through this Order a monetary penalty of ₹ 2,00,000/-(Two Lakhs). In addition, the EP CA Yogesh Mahipal and the audit firm M/s Yogesh Mahipal & Associates (FRN: 030845N) is debarred, for two years from being appointed as an auditor or internal auditor or from undertaking any audit in respect of financial statements or internal audit of the functions and activities of any company or body corporate. This Order will take effect after 30 days from its issue.

B. Introduction & Background

7. The NFRA is a statutory authority set up under Section 132 of the Companies Act 2013 to monitor and enforce compliance of the auditing and accounting standards and to oversee the quality of service of the professions associated with ensuring compliance

with such standards. NFRA is empowered under Section 132(4) of the Companies Act 2013 to investigate prescribed classes of companies and impose penalty for professional or other misconduct of the individual members or firms of chartered accountants.

8. The statutory auditors, both individuals and firms of Chartered Accountants, are appointed by the members of company under Section 139 of the Companies Act 2013. The statutory auditors, including the Engagement Partners and the Engagement Team that conduct the audit, are bound by the duties and responsibilities prescribed in the Companies Act, 2013 the rules made thereunder, the Standards on Auditing, including the Standards on Quality Control and the Code of Ethics, the violation of which constitutes professional misconduct, and is punishable with penalty prescribed under Section 132(4)(c) of the Companies Act 2013.
9. NFRA took up investigation into the alleged professional misconduct of the EP under Section 132(4) of the Companies Act 2013 after receipt of a letter dated 23.11.2022 from SEBI regarding deficiencies in the audit of Related Party Transactions (RPT), Expected Credit Loss (ECL) and depreciation of lease hold land and plant & machinery.
10. Vide NFRA letter dated 17.01.2023, the Audit Files and other documents for the FYs 2018-19 and 2019-20 were called from the EP. The EP submitted the same for the FYs 2018-19 and 2019-20 on 07.03.2023. The company had disclosed under Significant Accounting Policies in its Annual Report for the FYs 2018-19 and 2019-20, that it had prepared the Financial Statements (FS hereafter) in accordance with the Indian Accounting Standards (hereafter referred to as the 'Ind AS')² as notified by Ministry of Corporate Affairs. On examination of the Audit Files and other documents, it was observed that the audit had *prima facie* been conducted by the EP and his team in disregard of most of the SAs and relevant requirements of the Companies Act 2013. Despite this, the EP had issued an unmodified audit opinion in his Independent Auditor's Report.
11. On being satisfied that a sufficient cause existed to act under Section 132(4) of the Companies Act 2013, a SCN was issued to the EP on 18.01.2024, asking him to show cause why action should not be taken for Professional Misconduct in the Statutory Audit of Vikas for the FYs 2018-19 and 2019-20. The EP was charged with professional misconduct of:
 - a) failure to plan the audit and failure to understand the nature of the entity and its environment;
 - b) failure to evaluate the Internal Audit Function;
 - c) failure to determine materiality and performance materiality;

² Applicable financial reporting framework was the 'Indian Accounting Standards (Ind AS)' prescribed by Ministry of Corporate Affairs under Section 133 of Companies Act, 2013 (the "Act") read with Companies (Indian Accounting Standards (Ind AS)) Rules, 2015 and other relevant provisions of the Act.

- d) failure to report the non-provisioning in respect of the Expected Credit Loss;
 - e) non evaluation of the arm's length pricing carried out for Related Party Transactions;
 - f) failure to assemble the Audit File within 60 days of the completion of the audit;
 - g) failure to report non charging of depreciation of lease hold land and plant & machinery;
 - h) failure to obtain sufficient and appropriate audit evidence through external confirmations; and
 - i) failure to determine appointment of Engagement Quality Control Reviewer (EQCR).
12. The reply to the SCN was submitted by the EP on 22.03.2024. The EP did not avail the opportunity of personal hearing offered in the SCN. This Order is based on a review of the audit file, written response of the auditor and other material available on record. Each of the charges in the SCN is analysed and discussed herein below.

C. Lapses in the conduct of audit

Failure to plan the audit and failure to understand the nature of the entity and its environment

13. The EP was charged with failure to plan the audit and failure to understand the nature of the entity and its environment. For performing the audit in an effective manner, EP was required to plan the audit of financial statements of Vikas in accordance with Para 3 and 8 of SA 300³. The Audit Strategy and Audit Plan must be documented in accordance with Para 11 of SA 300, but no such documentation is found in the Audit File submitted by EP vide letter dated 07.03.2023.
14. The EP was also required to understand the nature of the business of Vikas by gaining an understanding of relevant industry, applicable regulatory structure etc. at macro level and gaining understanding of nature of the entity, its operations, its ownership, its governance & capital structure, and applicable financial reporting framework etc. at the entity level as required by para 11 of SA 315⁴. However, no audit documentation reflecting EP's understanding of the nature of the business of the entity was found in the audit file as required by para 11 of SA 300.
15. The EP admitted in his letter to NFRA dated 10.11.2023 that there was no documentation in the audit file for planning and overall strategy, as well as regarding understanding the entity & its environment. In his reply dated 22.03.2024 to the SCN, the EP did not offer any comment on lack of documentation regarding audit strategy and planning and understanding of the entity and its environment.

³ Standards on Auditing (SA) 300, *Planning and Audit of Financial Statements*

⁴ Standards on Auditing (SA) 315, *Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment*

16. Considering the above, the charge that the EP failed to comply with the provisions of SA 300 and SA 315 stands established.

Failure to evaluate the Internal Audit Function

17. The EP was charged with failure to evaluate the Internal Audit Function. It has been stated by the company in the Annual Report of FY 2018-19 (page 22) & 2019-20 (page 23) that M/s Sanjay Goyal & Associates were the internal auditors to review and strengthen the Internal Financial Control system of the Company. Examination of work papers submitted by EP does not show any analysis of the work of internal auditor or even the fact of the internal audit having been conducted in FY 2018-19 & 2019-20.
18. As per para 15 of SA 610⁵, *“The external auditor shall determine whether the work of the internal audit function can be used for purposes of the audit by evaluating the following:*
- (a) The extent to which the internal audit function’s organizational status and relevant policies and procedures support the objectivity of the internal auditors;*
 - (b) The level of competence of the internal audit function; and*
 - (c) Whether the internal audit function applies a systematic and disciplined approach, including quality control.*
19. The EP in his email to NFRA dated 10.11.2023 and letter dated 10.11.2023 attached with it, has stated that there was no internal auditor for the FY 2018-19 & 2019-20. In reply dated 22.03.2024 to the SCN as well the EP did not offer any comment regarding evaluation of internal audit function.
20. Accordingly, we conclude that the EP failed to comply with the provisions of SA 610 as it relates to evaluation of the work of internal auditor.

Failure to determine Materiality and Performance Materiality

21. The EP was charged with failure to determine Materiality and Performance Materiality. As per Para 10 of the SA 320⁶, while establishing the overall audit strategy, the auditor shall determine Materiality for the financial statements as a whole. Further, as per Para 11 of the SA 320, the auditor should also determine Performance Materiality for purposes of assessing the risks of material misstatement and determining the nature, timing, and extent of further audit procedures.
22. However, there was no documentation in the audit file pertaining to the determination of Materiality and Performance Materiality. The EP also confirmed to NFRA vide letter dated 10.11.2023 (point no. 5) that there is no documentation available for determination of Materiality and Performance Materiality. In reply dated 22.03.2024 to the SCN as well the EP did not offer any comment on lack of documentation regarding determining Materiality and Performance Materiality.

⁵ Standards on Auditing (SA) 610 (Revised), *Using the Work of Internal Auditors*

⁶ Standards on Auditing (SA) 320, *Materiality in Planning and Performing Audit*

23. Considering the above, the charge that the EP failed to determine materiality and performance materiality as required by SA 320 stands established.

Failure to report the non-provisioning in respect of the Expected Credit Loss

24. The EP was charged with failure to report the non-provisioning in respect of the Expected Credit Loss. The financial statements do not reveal any provision made on the account of Expected Credit Loss (ECL) on trade receivables as per Ind AS 109⁷. The trade receivables of ₹ 175.54 crores for the FY 2018-19 exceeded three times the sales of ₹ 52.77 crores and the trade receivables for FY 2019-20 of ₹ 170.23 crores was more than twenty-four times the sales of ₹6.96 crore. Moreover, there was no ageing analysis of trade receivables in the audit file and there was no impairment testing for the long pending trade receivable and provision of Expected Credit Loss (ECL) thereon.
25. The EP failed to report the non-provisioning of ECL on trade receivable by Vikas in the financial statements. There is no audit documentation/evaluation regarding non-provisioning of doubtful debts. The EP also confirmed in his letter dated 10.11.2023 to NFRA that no documentation was available for determination of '*ECL provisioning by the company*'. In his reply dated 22.03.2024 to the SCN also, the EP did not offer any comment on lack of documentation/evaluation regarding reporting the non-provisioning in respect of the Expected Credit Loss.
26. Considering the above, the charge that the EP failed to report the non-compliance by the company regarding ECL provision as per Ind AS 109 stands established.

No Evaluation of the arm's length pricing carried out for Related Party Transactions

27. The EP was charged with not evaluating the arm's length pricing for Related Party Transactions. As part of the audit procedures, the EP was required to confirm whether the approval for related party transactions had been accorded by the Audit Committee / Board of Directors / Shareholders as per Sections 177, 185 and 188 of the Companies Act, 2013 and whether these transactions were in the ordinary course of business and on arm's length basis, which the EP failed to do.
28. The Trade Payables on 31.03.2019 to the related parties (₹ 130.53 crore) were almost 100% of the Total Trade Payables of ₹130.57 crores. The Trade Receivables on 31.03.2019 from the related parties were ₹112.08 crore which is 63.84% of Total Trade Receivables of ₹175.54 crores on that date. Loan payable to directors were ₹64.04 crore and ₹57.11 crore respectively in FY 2018-19 and 2019-20. However, there were no audit work papers in relation to the evaluation of arm's length testing, as required under Section 177, 185 and 188 of the Companies Act, 2013.
29. Further, on examination of the Valuation Certificate issued by CA Somprakash Agarwal, it is noted that the Leasehold lands of ₹ 25 crore acquired from the Managing Director of Vikas during the FY 2018-19 were not disclosed under the Related Party Transactions

⁷ Indian Accounting Standard (Ind AS) 109, *Financial Instruments*

and the EP failed to report the acquisition of the leasehold land from the Managing Director under Related Party transactions.

30. Under point (xiii) of Annexure A to the Independent Audit Report on page 71 of annual report of FY 2018-19, the EP stated that, *“In our opinion and according to the information and explanations given to us, the Company is in compliance with Section 177 and 188 of the Companies Act, 2013, where applicable, for all transactions with the related parties and the details of related party transactions have been disclosed in the financial statements as required by the applicable accounting standards.”*
31. There are no audit work papers in respect of identification of related party, nature of related party relationships and the details of related party transactions and outstanding balances. The EP also confirmed in his letter dated 10.11.2023 to NFRA that there is no documentation for testing carried out in relation to related parties. In reply dated 22.03.2024 to the SCN also, the EP did not offer any comment on non-evaluation of the arm's length pricing for Related Party Transactions. Considering the above, the charge that the EP failed to evaluate the arm's length pricing and non-disclosure of all Related Party Transactions as per SA 550⁸ stands established. Non-evaluation of related party transactions has been viewed seriously by International Regulators as well. For example, the PCAOB, the US Regulator⁹, censured and imposed monetary penalty of \$ 30,000 collectively on the firm and respondents in the matter of Seale and Beers CPAs, LLC, and Charlie B. Roy, CPA, for their failure inter alia to obtain, or ensure that the engagement team obtained, sufficient appropriate audit evidence for significant items reported in the financial statements, including related party transactions and expenses.

Failure to assemble the Audit File within 60 days of the completion of the audit

32. The EP was charged with failure to assemble the Audit File within 60 days of the completion of the audit. Para 75 of SQC1 read with para A21 of SA 230¹⁰ states that *“an appropriate time limit within which to complete the assembly of the final audit file is ordinarily not more than 60 days after the date of the auditor's report”*. The date of Independent Auditor's Report is 22.05.2019 and 27.06.2020 for FY 2018-19 & 2019-20 respectively. The EP has failed to comply with the provisions of SA 230 and SQC1¹¹ as explained in the subsequent paras.
33. NFRA vide its letter dated 17.01.2023 had requested the EP to submit the audit file by 02.02.2023. In response, the EP vide letter dated 03.02.2023 had requested one month's extension and was given time till 24.02.2023. The EP subsequently submitted the audit file on 07.03.2023 but affidavit regarding completeness of audit file was not submitted along with audit file as required by NFRA vide letter dated 17.01.2023.

⁸ Standards on Auditing (SA) 550, *Related Parties*

⁹ Public Company Accounting Oversight Board (PCAOB) Release No. 105-2017-038

¹⁰ Standards on Auditing (SA) 230, *Audit Documentation*

¹¹ Standard on Quality Control (SQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements*

34. NFRA vide its mail dated 17.04.2023 requested the EP to submit the affidavit regarding completeness of audit file within 10 days. In turn, EP had requested NFRA vide email dated 26.04.2023 to allow some more time to submit extra documents and did not mention regarding submission of affidavit. However, no subsequent communication from EP was received regarding submission of documents and affidavit.
35. It is evident that the audit file was not compiled within 60 days of completion of audit as required by SA 230 and SQC1. It is the audit documentation that acts as a basis of the auditor's report and as evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements. In the absence of proper audit documentation, there is no way for us to ascertain whether the required audit procedures were performed at all.
36. Considering the above, the charge that the EP failed to assemble the Audit File within 60 days of the completion of the audit stands established.

Failure to report non charging of depreciation of leasehold land and Plant & machinery

37. The EP was charged with failure to report non charging of depreciation on lease hold land and plant & machinery. The leased land has been valued at ₹85.70 crore as on 31.03.2019 & 31.03.2020. This leased land had not been subjected to depreciation for the FY 2018-19 & 2019-20 as required in Ind AS 116¹². Para 31 of Ind AS 116 states that "*lessee shall apply depreciation to the property in depreciating the right-of-use asset*". In the annual report for FY 2018-19 (page No. 97), the company stated that it was into business of mining of Granite Blocks and manufacturing of Proppants. It is apparent from the report that this land meant for mining and quarrying should have been depreciated as per Ind AS 116. However, no depreciation was provided in the books of accounts.
38. It is further noted that the Plant & Machinery had been valued at ₹78.02 crore as on 31.03.2019 & 31.03.2020. This plant & machinery had not been subjected to depreciation during FY 2018-19 & 2019-20 as required by Ind AS 16¹³. The EP also confirmed the same to NFRA vide letter dated 10.11.2023 (point no. 16) and stated that the plant and machinery was not operational during those years, so depreciation was not charged. In reply dated 22.03.2024 to the SCN the EP did not offer any comment on not reporting the non-charging of depreciation of lease hold land and Plant & Machinery.
39. As per para 55 of Ind AS16 "*Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with Ind AS 105 and the date that*

¹² Indian Accounting Standards (Ind AS) 116, *Leases*

¹³ Indian Accounting Standards (Ind AS) 16, *Property, Plant and Equipment*

the asset is derecognised. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated”.

40. In the Independent Auditor’s Report of FY 2018-19 and 2019-20, the EP stated that “, *the standalone financial statements give the information required by the Companies Act, 2013 (“the Act”) in the manner so required and give a true and fair view in conformity with the Indian Accounting Standards prescribed under section 133 of the Act read with the Companies (Indian Accounting Standards) Rules, 2015, as amended, (“Ind AS”) and other accounting principles generally accepted in India, of the state of affairs of the Company, and its profit, total comprehensive income, its cash flows and the changes in equity for the year ended on that date.”*
41. Considering the above, the charge is proved that the EP made a false statement in the Independent Auditor’s Report that Vikas was in conformity with the Indian Accounting Standards (Ind AS).

Failure to obtain sufficient and appropriate audit evidence through external confirmations

42. The EP was charged with failure to obtain sufficient and appropriate audit evidence through external confirmations. As on 31.03.2019 the company had a Trade Receivables of ₹175.54 crore, trade payable of ₹ 130.57 crore and advance to suppliers ₹ 14.03 crores. On examination of the audit work papers it was seen that no external confirmations of bank balances and third-party balance confirmation for trade payables, trade receivables and advance to suppliers was obtained by the EP. In the absence of external confirmation, the auditor is required to perform alternative audit procedure to obtain relevant and reliable audit evidence as per SA 505¹⁴. The EP’s letter dated 10.11.2023 states that third party balances were subject to management confirmation and only Management Representation Letter was obtained in this regard. In reply dated 22.03.2024 to the SCN the EP did not offer any comment on obtaining sufficient and appropriate audit evidence through external confirmations.
43. In absence of documentary evidence of external confirmation from third party and any alternative procedure adopted by the EP, the charge that the EP failed to comply with the provisions of SA 505 stands established.

Failure to determine appointment of Engagement Quality Control Reviewer (EQCR)

44. The EP was charged with failing to determine the appointment of EQCR for the engagement of the audit of the Company which was required since Vikas was a listed Company during FY 2018-19. Para 19(a) of SA 220¹⁵ requires determination of appointment of an EQCR for audit of listed entities.

¹⁴ Standards on Auditing (SA) 505, *External confirmations*

¹⁵ Standards on Auditing (SA) 220: *Quality Control for an Audit of Financial Statements*

45. In reply dated 22.03.2024 to the SCN the EP did not offer any comment on appointment of EQCR.
46. SA 220 and SQCI lay significant emphasis on the appointment of EQCR, the work to be done by EQCR and documentation to be carried out by the EQCR. Vide para 7(b) of SA 220, the engagement quality control review is defined as "*process designed to provide an objective evaluation, before the report is issued, of the significant judgments the engagement team made and the conclusions they reached in formulating the report*".
47. Para 64 of SQCI casts a duty upon the EQCR partner to review important working papers relating to the significant judgments that the engagement team made and the conclusions they reached. Para 66 of SQCI requires that the engagement quality control reviewer conducts the review in a timely manner at appropriate stages during the engagement so that significant matters may be promptly resolved to the reviewer's satisfaction before the report is issued. Paras 68-72 of SQCI prescribe the criteria for the eligibility of engagement quality control reviewers and lay down the guidelines for ensuring his independence and objectivity for the assigned work of quality control in the engagement. For the listed entities, the SA 220 [Para 19(a)] makes it mandatory to ensure appoint an EQCR.
48. Considering the above, the charge that the EP failed to comply with the provisions of SA 220 regarding appointment of EQCR stands established.
49. Non-appointment of EQC Reviewer has been viewed seriously by international regulators as well. For example, the PCAOB¹⁶, the US Regulator, charged public accounting firm Stein & Company, LLP (Audit Firm) for its failure in audit of Health Talk Live, Inc. ("Health Talk") noting that "*The Firm improperly issued the audit report without obtaining an engagement quality review and concurring approval of issuance and thus violated Auditing Standard No. 7, Engagement Quality Review ("AS 7")*". For this misconduct, PCAOB censured the Firm and imposed a civil money penalty of \$5000. Similarly in another matter of Halperin Ilanit CPA ("Firm") and Ilanit Halperin, PCAOB¹⁷ among other things stated that "*The Firm failed to obtain engagement quality reviews for any of the Issuer Audits, and improperly permitted Cuentas, Enigma, and SuperCom to use its audit reports for the Issuer Audits without having obtained concurring approval of issuance from an engagement quality reviewer*" and imposed a civil money penalty in the amount of \$200,000 jointly and severally, on the Firm and Halperin; revoking the Firm's registration and requiring Halperin to complete 40 hours of continuing professional education.

D. Articles of Charges of Professional Misconduct by the EP

50. As discussed in the foregoing paragraphs, the EP has made departures from the Standards and in his conduct of the audit of Vikas Proppant & Granite Limited for the FY 2018-19

¹⁶ PCAOB release No. 105-2015-040 dated 03.12.2015.

¹⁷ PCAOB Release No. 105-2024-012 dated 19.03.2024.

and 2019-20. Considering the foregoing discussion, our findings on each article of charge listed out in the SCN, are stated below:

- (a) The EP committed professional misconduct as defined by clause 5 of Part I of the Second Schedule of the Chartered Accountant Act, 1949 which states that a Chartered Accountant is guilty of professional misconduct when he *"fails to disclose a material fact known to him which is not disclosed in a financial statement, but disclosure of which is necessary in making such financial statement where he is concerned with that financial statement in a professional capacity"*. This charge is proved as the EP failed to disclose in his report the material non-compliances by the company as explained in Para **24-31** above.
- (b) The EP committed professional misconduct as defined by clause 6 of Part I of the Second Schedule of the Chartered Accountant Act, 1949 which states that a Chartered Accountant is guilty of professional misconduct when he *"fails to report a material misstatement known to him to appear in a financial statement with which he is concerned in a professional capacity"*. This charge is proved as the EP failed to disclose in his report the material non-compliances by the company as explained in Para **24-31** above.
- (c) The EP committed professional misconduct as defined by clause 7 of Part I of the Second Schedule of the Chartered Accountant Act, 1949 which states that a Chartered Accountant is guilty of professional misconduct when he *"does not exercise due diligence or is grossly negligent in the conduct of his professional duties"*.

This charge is proved as the EP failed to exercise due diligence in the audit of the company in accordance with the SAs and applicable regulations, as explained in Para **13-49** above.

- (d) The EP committed professional misconduct as defined by clause 8 of Part I of the Second Schedule of the Chartered Accountant Act, 1949 which states that a Chartered Accountant is guilty of professional misconduct when he *"fails to obtain sufficient information which is necessary for expression of an opinion, or its exceptions are sufficiently material to negate the expression of an opinion"*.

This charge is proved as the EP failed to conduct the audit in accordance with the SAs and applicable regulations and failed to analyse and report the appropriateness of accounting policy Para **21-31 & 42-43** above.

- (e) The EP committed professional misconduct as defined by clause 9 of Part I of the Second Schedule of the Chartered Accountant Act, 1949 which states that a Chartered Accountant is guilty of professional misconduct when he *"fails to invite attention to any material departure from the generally accepted procedure of audit applicable to the circumstances"*.

This charge is proved since the EP failed to conduct the audit in accordance with the SAs as explained in Para **13-31 & 37-49** above.

In light of the foregoing, we conclude that the charges of professional misconduct against the EP, as enumerated in the SCN dated 18.01.2024, stand proved based on the evidence in the Audit File, the Audit Report issued by EP, the submissions made by EP, the annual report of Vikas for the FY 2018-19 & 2019-20 and other materials available on record.

E. Penalty & Sanctions

51. It is the duty of an auditor to conduct the audit with professional scepticism and due diligence and report his opinion in an unbiased manner. Statutory audits provide useful information to the stakeholders and public, based on which they make their decisions on their investments or do transactions with the public interest entity¹⁸.
52. Section 132(4) of the Companies Act, 2013 provides for penalties in a case where professional misconduct is proved. The seriousness with which proven cases of professional misconduct are to be viewed, is evident from the fact that a minimum punishment is laid down by the law.
53. The EP in the present case was required to ensure compliance with SAs to achieve the necessary audit quality and lend credibility to Financial Statements of a listed company. As we have explained in this Order, deficiency in the conduct of Audit, abdication of responsibility and inappropriate conclusions on the part of CA Yogesh Mahipal establish his professional misconduct.
54. Section 132(4)(c) of the Companies Act 2013 provides that National Financial Reporting Authority shall, where professional or other misconduct is proved, have the power to make order for—
 - (A) imposing penalty of— (I) not less than one lakh rupees, but which may extend to five times of the fees received, in case of individuals; and (II) not less than five lakh rupees, but which may extend to ten times of the fees received, in case of firms.
 - (B) debarring the member or the firm from—(I) being appointed as an auditor or internal auditor or undertaking any audit in respect of financial statements or internal audit of the functions and activities of any company or body corporate; or (II) performing any valuation as provided under Section 247 of the Companies Act, 2013, 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.
55. As per the information furnished by CA Yogesh Mahipal vide email dated 07.03.2023, the audit fees of Vikas for the FY 2018-19 & 2019-20 was [REDACTED] in each FY. However, as per EP's submission the mentioned fee was not received.
56. Considering the proven professional misconduct, the nature of violations, principles of proportionality and deterrence against future professional misconduct, we in exercise of powers under Section 132(4)(c) of the Companies Act, 2013, hereby order:

¹⁸ Public interest entity as defined in Rule 3 of NFRA Rules 2018

- I. Imposition of a monetary penalty of ₹ 2,00,000/- (Two Lakhs) upon CA Yogesh Mahipal;
- II. Debarment of CA Yogesh Mahipal and the audit firm M/s Yogesh Mahipal & Associates (FRN: 030845N), for **two years** from being appointed as an auditor or internal auditor or from undertaking any audit in respect of financial statements or internal audit of the functions and activities of any company or body corporate.
57. This Order will become effective after 30 days of its issue.

Sd/-

(Dr. Ajay Bhushan Prasad Pandey)
Chairperson

Sd/-

(Dr. Praveen Kumar Tiwari)
Full-Time Member

Sd/-

(Smita Jhingran)
Full-Time Member

Authorised for issue by the National Financial Reporting Authority.


(Vidhu Sood)
Secretary

Date: 05.07.2024
Place: New Delhi

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

To,
CA Shri Yogesh Mahipal, ICAI (MRN 530620)
Proprietor, M/s Yogesh Mahipal & Associates.
ICAI Firm Registration Number: 030845N
Ward No. 21, Mahipalon Ka Mohalla
Near Kutia Road, Bhadra
District Hanumanghad 335501, Rajasthan
Email: yshmahipal@gmail.com

Copy To: -

- (i) Secretary, Ministry of Corporate Affairs, Government of India, New Delhi.
- (ii) Securities and Exchange Board of India, Mumbai.
- (iii) Secretary, Institute of Chartered Accountants of India, New Delhi.
- (iv) Vikas Proppant & Granite Limited.
- (v) IT-Team, NFRA for uploading the order on the website of NFRA.