

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. - 017/2024

Date: 21.06.2024

ORDER

**Order under Section 132(4) of the Companies Act, 2013 in respect of CA Kashinath Chaturvedi,
(ICAI Membership No. 030932).**

This Order disposes of the Show Cause Notice dated 17.01.2024, issued to CA Kashinath Chaturvedi, partner of M/s K.B. Chaturvedi & Associates (Audit Firm), (ICAI Firm Registration No: 016107C), who is a Member of the Institute of Chartered Accountants of India (ICAI Membership No. 030932) and accepted the engagement for the statutory audit of five branches of Dewan Housing Finance Corporation Limited (DHFL), a company listed on both National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE) for the Financial Year 2017-18. This Order is divided into the following sections:

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

A. EXECUTIVE SUMMARY

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

appointment but also violated the provisions of the Chartered Accountants Act, 1949 (CAs Act), which required CA Kashinath Chaturvedi to accept a valid appointment as per the Act. Although the appointment letter for five branches of DHFL was accepted by CA Kashinath Chaturvedi, the “Independent Branch Auditors’ Reports” were issued under the signature of CA Krishna Bihari Chaturvedi (partner in the Audit Firm). CA Kashinath Chaturvedi submitted that it was CA Krishna Bihari Chaturvedi who conducted the audit, whereas CA Krishna Bihari Chaturvedi stated that he only finalised the audit that CA Kashinath Chaturvedi conducted. However, the Audit File submitted does not contain any evidence of who conducted the audit. The evidence is available only regarding who accepted the Audit and who issued the Audit Reports.

3. Notwithstanding his acceptance of a legally invalid appointment, the conduct of the Branch Audit was investigated by NFRA from the standpoint of compliance with the applicable Standards on Auditing (SAs) in the performance of the branch audit. It was found that both the partners had not complied with the requirements laid down in the SAs and had not maintained proper audit documentation as per the standards which pointed to their possible professional misconduct in terms of Section 132 (4) of the Act. Accordingly, we initiated disciplinary proceedings under Section 132(4) against both the partners which established their professional misconduct. Accordingly, Order No. 016/2024 dated 21.06.2024 has been issued against CA Krishna Bihari Chaturvedi, who had signed the Audit Reports for the five branches of DHFL.
4. The Order relates to the professional misconduct of CA Kashinath Chaturvedi and based on the nature of professional misconduct and other factors, this Order imposes on CA Kashinath Chaturvedi a monetary penalty of Rupees One lakh and debarment for One year from being appointed as an auditor or internal auditor or from undertaking any audit in respect of financial statements or internal audit of the functions and activities of any company or body corporate.

B. INTRODUCTION AND BACKGROUND FOR THE ORDER

5. NFRA is a statutory authority set up under Section 132 of the Act to monitor the implementation and enforce compliance with the auditing and accounting standards and to oversee the quality of service of the professions associated with ensuring compliance with such standards. NFRA has the powers of a civil court and is empowered under Section 132 (4) of the Act to investigate the prescribed classes of companies and impose penalties for professional or other misconduct of the individual members or firms of chartered accountants.
6. The statutory auditors, both individual and firm of chartered accountants, are appointed by the members of companies under Section 139 of the Act. The statutory auditors, including the Engagement Partners and the Engagement Team that conduct the audit, are bound by the duties and responsibilities prescribed in the Act, the rules made thereunder, the Standards on Auditing (SA), including the Standards on Quality Control and the Code of Ethics, the violation of which constitutes professional misconduct, and is punishable with penalty prescribed under Section 132 (4) (c) of the Act.
7. Following certain media reports exposing an alleged siphoning of public money of around ₹31,000 crore and the Enforcement Directorate’s reported action in April 2020 on an alleged banking fraud of about ₹3,700 crore by the promoter/ directors of Dewan Housing Finance Corporation Limited (DHFL), NFRA initiated an Audit Quality Review (AQR) to probe into the role of the Statutory Auditors of DHFL for the FY 2017-18, the year in which the alleged fraud was primarily stated to have occurred. While examining the Audit Files of the said Statutory Audit carried out by Chaturvedi & Shah, a Mumbai-based CA firm, certain serious violations were observed in the appointment of Branch Auditors and the conduct of branch audits of DHFL which were referred to

by the statutory auditor Chaturvedi & Shah while giving the audit report of DHFL. NFRA observed that the branch auditors were appointed by the company without following due procedure prescribed in the Companies Act, 2013 (the Act) while the audit reports issued by those branch auditors give the false impression that the branch auditors were appointed under the Act. Such misleading branch 'Statutory Audit' reports were referred to by the Company's auditor in its audit reports to the members of the Company, thereby misleading the users of the financial statements. Observing this anomaly, we, under Section 132(4) of the Act, called for the Audit Files of these branch audits including for the five branches of DHFL at Ghatkopar, Khopoli, Roha, Shahapur and Bhiwandi for which audit assignment was accepted by CA Kashinath Chaturvedi.

8. DHFL, a housing finance company listed on both NSE and BSE, was required to prepare its Financial Statements for the Financial Year (FY) 2017-18 in accordance with Schedule III and other applicable provisions of the Act.
9. As part of our investigations, CA Kashinath Chaturvedi was asked to provide the Audit File¹ within 15 days' time vide NFRA letter 10.08.2022. Due to non-receipt of requisite information, the time limit for submission of details was suo-motu extended to 15.09.2022 vide NFRA letter dated 01.09.2022. The Audit File along with other information in respect of the five branches for FY 2017-18 was submitted by him on 15.09.2022 on an affidavit stating that "...I also affirm that the Audit File(s) submitted by me/my Audit Firm to NFRA is complete in all respects as stipulated in the Standards on Auditing (SA)...".
10. On examination, it is revealed that the branch auditors had violated both the Companies Act, 2013 and the Chartered Accountants Act, 1949 by accepting the appointment that lacked a valid approval and had also violated the SAs while carrying out the branch audit. On being satisfied that prima facie sufficient cause existed to take action under sub-section (4) of Section 132 of the Act, a Show Cause Notice ("SCN" hereafter) was issued to CA Kashinath Chaturvedi ("the CA" hereafter) on 17.01.2024, asking him to show cause why action should not be taken for professional misconduct in respect of his performance as the Statutory Auditor of five branches of DHFL for the FY 2017-18. The CA was charged with professional misconduct on account of:
 - a. Failure to ascertain from the Company whether the requirements of Sections 139 & 140 of the Act in respect of such appointment have been duly complied with and
 - b. Failure to exercise due diligence and being grossly negligent in the conduct of professional duties
11. CA Kashinath Chaturvedi was asked to submit his reply to SCN by 16.02.2024. The CA's response was received on 13.02.2024 stating that they "*were not appointed as statutory auditors of the company or its branches*". The CA did not avail the opportunity for a personal hearing.
12. The various charges levied in the SCN and the response of the CA to the charges are discussed in Part C of this Order.

C. MAJOR LAPSES

13. The major lapses for which the CA Kashinath Chaturvedi was issued the SCN primarily relate to (i) accepting the audit engagement without a valid authority and thus violating the provisions of the Act and (ii) violations of the Standard of Auditing in conducting the audit.

I. Acceptance of audit engagement without valid authorization and without complying with ethical requirements; and issue of audit reports by the Audit Firm in violation of the Act

¹ As defined in para 6 of SA 230

14. The CA was charged with acceptance of an audit engagement without complying with ethical requirements that resulted in the issue of the audit report by the Audit Firm without a valid appointment as per the Act, as the appointment of the Audit Firm as “Statutory Auditor for the branches” of DHFL for FY 2017-18 was not done by the competent authority i.e., the shareholders.
15. Despite a specific requirement² in the Chartered Accountants Act, 1949 (CAs Act) to do so, CA Kashinath Chaturvedi did not verify if the appointment as “Statutory Auditor for the branches” of the Company was done in compliance with Section 139 of the Act. Not only he accepted an invalid appointment letter issued by an “Authorised Signatory” without the approval of the Board and shareholders but also the Audit Firm issued the audit report without ascertaining the actual objective and scope of the audit. The CA also violated the ethical requirements, as laid down in the Code of Ethics, 2009, which required him to ensure professional competence, due care, integrity and professional behaviour in discharging the duties as well as compliance with the Act before accepting the engagement. In the process, the CA also did not comply with Paras 14, 15 and 16 of SA 200 “Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing”.
16. In response, CA Kashinath Chaturvedi stated that *“We wish to agree with you and reconfirm that we were not appointed statutory auditors of the company or its branches as required under section 139(1) read with section 143(8) of the companies Act, 2013 (CA-2013) in the AGM of the company and no such resolution was passed in the AGM of the dhfl”*. The CA claimed that they *“were appointed only for the purpose of certain specific verification and certifications”*.
17. We observe that the appointment letter acknowledged by CA Kashinath Chaturvedi and the “Independent Branch Auditors’ Report” issued by the Audit Firm clearly described the engagement as a Branch “Statutory Audit”. The contention of the CA now that he was not a Statutory Auditor shows the absence of professional behaviour and gross negligence. Misconduct, arising out of gross negligence, implies failure to act honestly and reasonably either according to the ordinary and natural standard or according to the standard of a particular profession³. His failure to act honestly and reasonably is established by the fact that despite the clear communications by the Company and CAS that the engagement is a statutory audit, the CA now describes it as an engagement entailing limited “verification and certifications”.
18. The below documents evidence that the CA accepted the subject matter audit assignment, acted in good faith as “Statutory Auditor for the Branches” of DHFL until an SCN was issued by NFRA:

S.NO.	Name/Nature of Document	Document Date	Details of document
1	Appointment Letter	23.08.2017	Appoints the audit firm as "Statutory Auditor for the branches" at a "Statutory Audit Fees" of ₹1,20,000/-
2	Acceptance Letter	11.09.2017	Signed by Audit Firm accepting appointment as "Branch Statutory Auditor"

² Under Section 22 of the Chartered Accountants Act, 1949 read with Clause (9) of Part I of the First Schedule to the said Act (the meaning of which is conceived in Section 132(4) as professional misconduct).

³ Cited in ICAI Code of Ethics, Registrar of Companies, Bihar vs. M.N. Basu - Page 323 of Vol. IV of the Disciplinary Cases, ICAI vs B. L. Khanna (Delhi High Court).

3	Guidelines for Statutory Audit of Branches	Issued along with appointment letter dated 23.08.2017	States that <i>“Besides statutory compliance and requirements there are certain specific areas which have to be looked into and verified by the Statutory Auditors...”</i> The subject matter assignment was not only limited to “Statutory Branch Audit”, but additionally included verification of certain specific areas.
4	Independent Branch Auditor’s Report	07.04.2018 for five branches	Audit Firm certifies under <i>“Auditor’s Responsibility”</i> that <i>“we have taken into account provisions of the Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of the Act and the Rules made thereunder. We conducted our audit in accordance with the Standards on auditing specified under Section 143(10) of the Act. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance”</i> and also certified the <i>“true and fair view of the Branch as at 31st March 2018”</i> .
5	<i>“Certificate”</i> issued in form <i>“Annexure III”</i> by the Audit Firm in relation to loans issued by the DHFL branches	Undated for different branches	Audit Firm certifies for various branches that <i>“We have carried out the statutory audit of ... branch of Dewan Housing Finance Corporation Limited for the year ended on 31st March, 2018”</i> .

19. Besides the above, the Audit Firm prepared a report titled “Independent Branch Auditors’ Report” on the accounts of the branch examined and sent it to the auditor of the company as is required by the proviso to Section 143(8) read with Rule 12 “Duties and Powers of the Company’s Auditor with Reference to the Audit of the Branch and the Branch Auditor” of the Act. Thus, the contention of the CA that the subject matter engagement was not for statutory audit is an afterthought and cannot be accepted.
20. Under Section 22 of the Chartered Accountants Act, 1949 read with Clause (9) of Part I of the First Schedule to the said Act (the meaning of which is conceived in Section 132(4) as professional

misconduct) a chartered accountant in practice shall be deemed to be guilty of professional misconduct if an appointment as auditor of a company is accepted without first ascertaining from it whether the requirements of Section 225 of the Companies Act, 1956 (equivalent Sections being Section 139 & 140 of Companies Act, 2013)³ in respect of such appointment have been duly complied with.

21. The ICAI Code of Ethics, 2009 makes it clear that "*Under Clause (9) of Part I of the First Schedule to the Chartered Accountants Act, 1949, the incoming auditor has to ascertain whether the Company has complied with the provisions of the above sections. The word "ascertain" means "to find out for certain". This would mean that the incoming auditor should find out for certain as to whether the Company has complied with the provisions of Sections 224, 224A and 225 of the Companies Act. In this respect, it would not be sufficient for the incoming auditor to accept a certificate from the management of the Company that the provisions of the above sections have been complied with. It is necessary for the incoming auditor to verify the relevant records of the Company and ascertain as to whether the Company has, in fact, complied with the provisions of the above sections*". It is evidenced by the instances listed in the Table above, the Audit Firm's documentation and reports issued show that they performed the work as a Branch Statutory Auditor. However, on receipt of the communication from NFRA regarding the stated assignment, the CA took a divergent stand and contended that the audit was not a statutory branch audit.
22. As per Section 143 (8) of the Act, the appointment of the Statutory Auditor is required to be made under Section 139 of the Act by the members at an annual general meeting. It is observed that the Resolution for Appointment of Auditor for the financial year 2017-18 passed at the 33rd Annual General Meeting of DHFL, held on 21-07-2017, read with the declaration of Voting Results of the resolution to ratify such appointment only refers to the appointment of CAS (Firm Registration No: 101720W), as the Statutory Auditors of the Company to audit the accounts of all the Company's offices including those of its zonal/ regional and branch offices for the financial year 2017-18. No other Branch Statutory Auditors were appointed or ratified by the Company in the said meeting. Only CAS was appointed as the Statutory Auditor for the company as well as all its branches. Thus, the shareholders of the company approved only one Statutory Auditor (viz. Chaturvedi & Shah) for the Company and its branches. Therefore, in the absence of a valid appointment, acceptance of audit engagement by the CA vide letter dated 11.09.2017 of the appointment as Statutory Auditor of the branches and issuance of the "Independent Branch Auditor's Report" by the Audit Firm for the five branches of DHFL, describing the engagement as Branch Statutory Audit confirms the absence of professional skepticism and lack of due diligence on his part.
23. CA Kashinath Chaturvedi was required to exercise due diligence under SA 200 and adhere to the specific provisions of the Chartered Accountants Act, 1949 under Section 22 read with Clause 9 of Part I of the First Schedule. The non-compliance is therefore professional misconduct in terms of section 132(4)(c) of the Companies Act 2013. Branch Statutory Audit is rendered invalid ab initio due to non-ratification by the shareholders of the Company which was the requirement of the law. This is compounded by the fact that CAS, in their Statutory Audit Report, has referred to the branch audit reports⁴. The said lack of due diligence in accepting an invalid appointment is also professional misconduct as per Clause 7 of Part I of the Second Schedule to the CAs Act, the

³ As per Ministry of Corporate Affairs Circular No. 7/2014, dated 01-04-2014, the equivalent sections of the Companies Act 2013 for the above sections of the Companies Act, 1956 are sections 139 and 140.

⁴ Independent Auditor's Report of DHFL dated 30.04.2018 issued by CA Jignesh Mehta on behalf of CAS, available in the public domain (<https://www.bseindia.com/bseplus/AnnualReport/511072/5110720318.pdf> - Last accessed 21.06.2024)

meaning of which is conceived in Section 132(4)(c) of the Act. Therefore, we find that the charges in paras 14 and 15 above stand proved.

II. Failure to comply with Standards on Auditing (SAs)

24. We now discuss the non-compliance by CA Kashinath Chaturvedi with the SAs, since the audit work done by the Audit Firm has been referred to in the Audit Report of the Statutory Auditor, CAS. We observe from the various communications between the Company, the Branch Auditor and the Statutory Auditor that the whole Branch Audit engagement was performed by the Branch Auditors as per the scope of work provided by the company in consultation with the Statutory Auditors. The scope describes the engagement as a branch statutory audit under the Act. The CA accepted the "Statutory Branch Audit" assigned by the Company and the Audit Firm issued the "Independent Branch Auditors' Report" stating therein that *"we have taken into account provisions of the Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of the Act and the Rules made thereunder. We conducted our audit in accordance with the Standards on auditing specified under Section 143(10) of the Act. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance"*. Since these branch audit reports are clearly referred to by Company's Statutory Auditor (CAS) in its report to the members of the Company, we examine here the extent of compliance with the applicable SAs by the Branch Auditor notwithstanding the violation of ethical standards, the Chartered Accountants Act, 1949 and of the Companies Act, 2013 in accepting an invalid appointment as the Branch Auditor. The principles and procedures laid down in the SAs including professional skepticism, audit documentation, sufficiency and appropriateness of audit evidence, audit planning, materiality, engagement risk, nature, timing and extent of evidence-gathering procedures and reporting are all applicable in the branch audit as well, being an audit of historical financial information. Accordingly, the various violations of the SAs with which the CA was charged in the SCN are discussed in the following paragraphs.

Non-Compliance with SA 210 "Agreeing the Terms of Audit Engagements"

25. The CA was charged with non-compliance with SA 210⁵ and displaying an absence of professional skepticism and professional judgment in documenting the objective and scope of the audit, thereby violating SA 200⁶ as well. SA 210⁷ stipulates that the auditor shall agree to the terms of the audit engagement with management or Those Charged With Governance (TCWG) and that subject to paragraph 11 of the SA, the agreed terms of the audit engagement shall be recorded in an audit engagement letter or other suitable forms of a written agreement and shall include (a) the objective and scope of the audit of the financial statements; (b) the responsibilities of the auditor; (c) the responsibilities of management; (d) identification of the applicable financial reporting framework for the preparation of the financial statements; and (e) reference to the expected form and content of any reports to be issued by the auditor and a statement that there may be circumstances in which a report may differ from its expected form and content.
26. Responding to the charges, the CA stated that he had *"followed all necessary auditing practices which in such assignments of certifications are needed"*.

⁵ SA 210, Agreeing the Terms of Audit Engagements.

⁶ Para 15 and 16 of SA 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing.

⁷ Para 9, 10 and 11 of SA 210

27. The contention of the CA is not acceptable in the absence of a valid engagement letter in the Audit File. The CA was required to exercise due diligence under SA 200⁸ and adhere to the requirements of SA 210.
28. The CA's negligence of the provisions of SA 210 has resulted in accepting an invalid appointment and issuing report that is not legally valid. Apart from non-compliance with SA 210, this shows the absence of professional skepticism and professional judgment in understanding the objective and scope of the audit, thereby violating SA 200 also. Therefore, the charges in para 25 above regarding non-compliance with SA 210 and SA 200 stand proved.

Non-Compliance with SA 230 "Audit Documentation"

29. CA Kashinath Chaturvedi was charged with non-compliance with SA 230, "Audit Documentation", which requires the auditor to duly prepare and maintain audit documentation for the audit of financial statements. Branch Audit is no exception and auditors need to collect all the documentary evidence while carrying out the audit. Audit File submitted by the CA on affidavit does not contain any documentation for one of the five branches of DHFL for which appointment was accepted by the CA. There is no documentation in the Audit File of any audit working papers or of the Audit Report issued by the Audit Firm in respect of Shahapur Branch of DHFL, despite the fact that an Audit Report dated 07.04.2018 was issued by the Audit Firm.
30. The Audit File also does not give evidence of the nature, timing and extent of audit procedures performed, results of those audit procedures and conclusions reached during the audit as required by SA 230. In terms of SA 230⁹, the objective of the auditor is to prepare documentation that provides a sufficient and appropriate record of the basis for the auditor's report; and evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements. In the absence of the required documentation, the audit report issued by the Audit Firm to CAS, the Statutory Auditor, was without adequate basis and was in violation of SAs.
31. Responding to the charges, the CA denied all the charges and submits that "*deeper study of our documentations will prove that commensurate to our required job, we have done full justice*".
32. As explained by SA 230¹⁰, the nature and purposes of audit documentation are to provide evidence of the auditor's basis for a conclusion about the achievement of the overall objectives of the auditor; and evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements. SA 230 lists "enabling the conduct of quality control reviews and inspections in accordance with SQC 1; and enabling the conduct of external inspections in accordance with applicable legal, regulatory or other requirements" among the additional purposes that are served by the audit documentation. Para 7 of SA 230 emphasises the "Timely Preparation of Audit Documentation" i.e. in a manner contemporaneous with the events that are being sought to be documented.
33. Apart from SA 230, there are other SAs that also require the documentation of events, data, evidence, opinions and conclusions. SA 230 makes it very clear that reliance can be placed only on the audit file as evidence of what was done. Para A5 of SA 230 makes explicit that: "Oral explanations by the auditor, on their own, do not represent adequate support for the work auditor performed or conclusions the auditor reached, but may be used to explain or clarify information contained in the audit documentation". Para 14 of A 230 mandates that the auditor shall assemble

⁸ Para 14, 15, 16 and 18 of SA 200

⁹ Para 8 and 9 of SA 230

¹⁰ Para 5 of SA 230

- the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis after the date of the auditor's report.
34. SA 230 requires that the auditor shall prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand (a) The nature, timing, and extent of the audit procedures performed to comply with the SAs and applicable legal and regulatory requirements, (b) The results of the audit procedures performed, and the audit evidence obtained, and (c) Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.
 35. SA 230 further requires that in documenting the nature, timing and extent of audit procedures performed, the auditor shall record (a) The identifying characteristics of the specific items or matters tested; (b) Who performed the audit work and the date such work was completed; and (c) Who reviewed the audit work performed and the date and extent of such review.
 36. The Audit File does not contain the basic documentation. In the absence of such documented proof in the audit file, the inevitable conclusion is that the requirements of the SAs are not met.
 37. CA Kashinath Chaturvedi did not follow the requirements of SA 230 and the audit documentation does not give evidence of the nature, timing and extent of audit procedures performed, results of those audit procedures and conclusions reached during the audit. Hence the charges in para 29 above regarding non-compliance with SA 230 stand established.
 38. The lack of sufficient documentation in an audit is not merely a technical and procedural formality but is a serious issue which undermines the credibility of the audit and may defeat the very purpose of the audit itself. Lack of sufficient documentation has been viewed seriously by national and international regulators as well. For example, in the matter of Bharat Parikh & Associates Chartered Accountants, dated 19-03-2019, the US audit regulator PCAOB took a serious view of the lack of sufficient documentation and imposed penalties and sanctions for violations including insufficient documentation. The PCAOB Order states "*Audit documentation must contain sufficient information to enable an experienced auditor, having no previous connection with the engagement to (a) understand the nature, timing, extent, and results of the procedures performed, evidence obtained, and conclusions reached, and (b) determine who performed the work and the date such work was completed as well as the person who reviewed the work and the date of such review.....the documentation for each of those audits was insufficient to demonstrate the nature, timing, extent, and results of the procedures performed, evidence obtained, and conclusions reached, including in those areas of the audits involving significant risks. For the FY 2016 and 2017 Issuer A audits, the documentation also failed to demonstrate who performed the work and the date such work was completed. Additionally, in each of the Issuer A and Issuer B audits, the audit documentation was insufficient to demonstrate which aspects of the audit and which audit documentation Bharat Parikh reviewed*".

D. FINDINGS ON THE ARTICLES OF CHARGES OF PROFESSIONAL MISCONDUCT

39. Given the above-mentioned actions and omissions, it is established that CA Kashinath Chaturvedi did not comply with the stipulations in the Chartered Accountants Act, 1949 regarding the acceptance of the statutory audit engagement and showed gross negligence and lack of due diligence while accepting an invalid appointment as auditor. In addition to accepting a legally invalid appointment, the CA also did not ensure the audit quality. The CA was grossly negligent in performing his professional duties by not adhering to the requirements laid down by the relevant SAs. This has resulted in 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 Kashinath Chaturvedi as contained in the Articles of Charges in the SCN, are established.

- a) Failure to ascertain from the audited Company whether the requirements of Sections 139 & 140 of the Act in respect of such appointment had been duly complied with, as explained and proved in part C-I above. (As per Section 22 and Clause 9 of Part I of the First Schedule to the CAs Act);
- b) Failure to exercise due diligence and being grossly negligent in the conduct of professional duties, because of the lapses and omissions as explained and proved in parts C-I and C-II above. (As per Section 22 and Clause 7 of the Part I of Second Schedule to the CAs Act);

Thus, we find that CA Kashinath Chaturvedi committed professional misconduct, as defined in the respective clauses of the CAs Act, the meaning of which is conceived under Section 132 (4) of the Companies Act, 2013 as amounting to professional misconduct.

E. PENALTY AND SANCTIONS

40. Section 132(4) of the Companies Act, 2013 provides for penalties in a case where professional misconduct is proved. The law lays down a minimum punishment for such misconduct.
41. In this case, the information contained in the Financial Statement, includes material information from the Branches of the Company, where a substantial part of the lending activities was carried out.
42. A Branch Auditor is duty-bound to examine and ascertain the integrity of the underlying information forming Financial Statements of such entities¹¹ in the larger public interest.
43. In this case, while all the documents and reports described the engagement as a statutory branch audit and the audit was, in substance as well as in form, a statutory branch audit, none of the legal requirements regarding the appointment of the statutory audit was complied with. More importantly, the Audit Firm performed the audit as a statutory audit. Audit Firm was well aware that these reports would ultimately be used and referred to by the Company's auditor, to whom these reports were addressed. The Audit Firm also certified in the reports that the engagement was performed as per SAs. Despite all these facts, the evidence shows several non-compliance with applicable SAs and the applicable laws.
44. As detailed in the foregoing paragraphs, there were deficiencies in the Audit and abdication of responsibility on the part of CA Kashinath Chaturvedi right from the acceptance of the Audit without due diligence in ascertaining the validity of the offer, which establishes his gross negligence resulting in professional misconduct. In fact, accepting an audit assignment in contravention of the Law and continuing it in non-conformity with the SAs, constitutes a flagrant violation of the Law. We also conclude that despite being a qualified professional, CA Kashinath Chaturvedi has not adhered to the Standards on Auditing and provisions of the law.
45. Considering the fact that professional misconducts have been proved and considering the nature of violations and principles of proportionality and keeping in mind the deterrence, proportionality, signalling value of the sanctions and time required for improvement in knowledge gaps we, in exercise of powers under Section 132(4)(c) of the Companies Act, 2013, proceed to order the following sanctions:

¹¹ As defined in Rule 3 of NFRA Rules 2018

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

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

Signed
(Dr Ajay Bhushan Prasad Pandey)
Chairperson

Signed
(Dr Praveen Kumar Tiwari)
Full-Time Member

Signed
(Smita Jhingran)
Full-Time Member

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

Date: 21.06.2024
Place: New Delhi


(Vidhu Sood)
Secretary

To,
CA Kashinath Chaturvedi,
ICAI Membership No - 030932,
Partner, M/s K.B. Chaturvedi & Associates,
Chartered Accountants,
(ICAI Firm Registration No: 016107C)
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सचिव / Secretary
राष्ट्रीय वित्तीय रिपोर्टिंग प्राधिकरण
National Financial Reporting Authority
नई दिल्ली / New Delhi

Copy To: -

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