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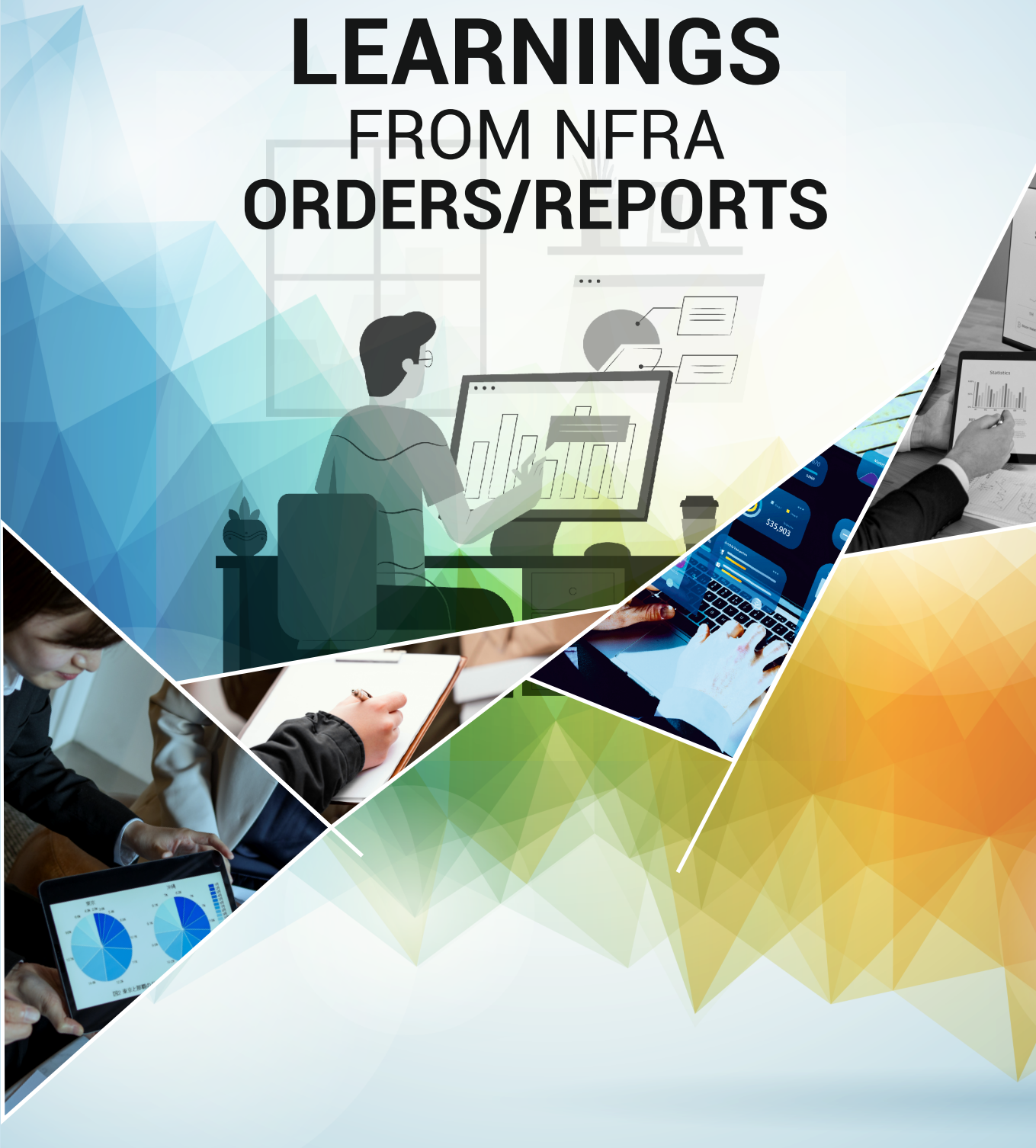
The Institute of Chartered Accountants of India

(Set up by an Act of Parliament)

Western India Regional Council



LEARNINGS FROM NFRA ORDERS/REPORTS





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THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA**

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Foreword

The Indian regulatory landscape has witnessed a significant shift in recent years, with an increased focus on ensuring the quality of audits conducted by professional firms. The National Financial Reporting Authority (NFRA) has played a pivotal role in this regard, issuing orders and reports that provide valuable insights into the expectations and standards expected of audit firms.



This publication serves as a comprehensive resource for professionals and students alike, offering a collection of case study-based NFRA orders and reports. By analyzing these cases, professionals can gain valuable insights into potential red flags and proactively address issues that led to corporate failures.

This publication presents a compilation of NFRA orders and reports, offering a rich repository of insights into the expectations regulators have set for auditing firms and auditors. This collection of case studies has been meticulously curated to provide invaluable learning opportunities for our members, students and audit professionals.

I encourage readers to delve into the content of this publication and engage in discussions to deepen their understanding of the evolving regulatory landscape and best practices in auditing. By learning from the experiences of others, we can collectively enhance the quality and credibility of the auditing and accountancy profession in India.

I take this opportunity to thank the contributors comprising CA. Manojkumar Sahu, CA. Ambesh Dave, CA. Chintan Shah, CA. Shraddha Khivsara and CA. Kalpit Bhagat for taking out valuable time to research relevant cases and put them together in a comprehensive manner for the betterment of the profession and members everywhere.

I trust that this publication will prove to be a valuable tool for professionals and students alike, enabling them to discuss, deliberate and more importantly assess key learnings from these reports and contributing in a concrete manner to the ongoing development and improvement of the auditing profession in India.

CA. Ankit Rathi

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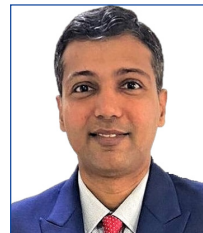
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Preface

It gives me immense pleasure to present this compilation of orders and reports issued by National Financial Reporting Authority (NFRA). The NFRA is a regulatory body in India established under the Companies Act, 2013 with primary role to monitor and enforce the compliance of auditing and accounting standards and oversee the quality of services of the associated profession, to ensure the quality and reliability of financial reporting.



NFRA has issued in recent past various orders and reports, particularly in the form of Audit Quality Review Reports (AQRR) and Financial Reporting Quality Review Reports (FRQR). The objective of this publication is to consolidate and highlight the important learnings from some of NFRA orders, AQRRs, and FRQRs. By understanding and learning from these documented observations, we aim to understand expectations of NFRA and enhance the quality of financial reporting and auditing practices.

I would like to extend my heartfelt thanks to the Chairman of WIRC CA. Ankit Rathi for entrusting our committee with this significant task. I also express my sincere gratitude to all contributors CA. Manojkumar Sahu, CA. Ambesh Dave, CA. Chintan Shah, CA. Shraddha Khivsara, CA. Kalpit Bhagat for their dedicated efforts, which have been instrumental in bringing this publication to fruition. Your commitment to this cause has ensured that this compilation will serve as a valuable resource for our members.

As Warren Buffett wisely said, **"It's good to learn from your mistakes. It's better to learn from other people's mistakes."** This compilation embodies that philosophy by providing insights from publicly available NFRA orders/reports, helping us all to avoid similar pitfalls in our professional practices.

I wish all the readers the very best in their journey towards excellence in financial reporting and auditing. May this publication serve as a guide and an inspiration to uphold the highest standards of our profession.

Warm regards,

CA. Chintan N. Patel

Chairman,

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Western India Regional Council of

The Institute of Chartered Accountants of India

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NFRA Orders

Sr. No.	SA No. Ind AS No.	Reference of SA / Ind AS Para	Topic for Non Compliance	Explanations
1	Dewan Housing Finance Limited (DHFL)			NF-21/1/2022/01 Dated 31st March 2023
	SA 200	Overall Objectives of the Independent Auditor & Conduct of Audit in accordance with standard on Auditing Para 14 to 16	Whether appointment of Audit firm as "Statutory Auditor for the Branches" was done in compliance with SA	The appointment of the Audit Firm as "Statutory Auditor for the branches" was not done by the competent authority i.e. (shareholders). On examination of the Audit File, it was observed that the EP did not verify compliance with section 139 of the Act regarding the appointment and accepted the invalid appointment letter that was issued by an "Authorised Signatory" without the approval of the Board and shareholders. Accordingly, both the appointment as "Statutory Auditor for the branches" and the "Independent Branch Auditors' Report" issued by the EP were invalid. The Code of Ethics, 2009, applicable to the EP require auditor to ensure professional competence, due care, integrity and professional behaviour in discharging his duties, which were lacking, as evidenced by his acceptance of an audit engagement that was legally invalid. In doing so.
	SA 210	Agreeing the terms of Engagement Para 11	Contents of Audit engagement	SA 210 stipulates that the auditor shall agree to the terms of the audit engagement with management or Those Charged with Governance (TCWG) and that the agreed terms

Sr. No.	SA No. Ind AS No.	Reference of SA / Ind AS Para	Topic for Non Compliance	Explanations
				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 However, The EP was of the view that the same was provided in the appointment letter But on scrutinizing it was observed that all the terms as mentioned above were not presented in Appointment letter hence was a violation of this SA.
	SA 230	Audit Documentation Para 7 Para A5	Audit documentation was not appropriately documented	In terms of SA 230, 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 is planned and performed in accordance with SAs and applicable legal and regulatory requirements. As there were no audit evidence to indicate that the EP has performed audit procedures and documented the conclusion & Nature, timing &

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				Extent of the audit procedures hence it is violance of the said SA Also reliance can be placed only on the audit file as evidence of what was done. Although EP gave oral explanations of the work done by them as per 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
	SA 700	Forming an opinion & reporting on Financial Statements Para 10 to 12	Unmodified opinion on FS even though material discrepancies were presented or data wasn't provided by management.	In the Annexures to the audit report it was noted that at several places, for a large number of loan files reviewed, either required documents were not obtained or loans disbursed were not as per the loan policy of Company or EP did not have access to the required information. But still EP formed unmodified opinion on Financial statements. Also audit opinion issued by the EP ambiguously states that the "Trail Balance and other details of the branch . . exhibit a true and fair view". This is despite the fact that, by his own admission, he did not receive around 50% of the material requisitioned for audit. As per the SAs, the EP is required to evaluate the effect of the misstatements and decide to appropriately modify his opinion. However, despite noting several misstatements and the absence of required information and admitting that these were material, the EP issued an unmodified opinion without complying with the requirements of SA 700.

Sr. No.	SA No. Ind AS No.	Reference of SA / Ind AS Para	Topic for Non Compliance	Explanations
2	Coffee Day Global Limited (CDGL)			NF-23/14/2022 dated 12.04.2023
	SA 200, SA 220 & SQC 1	Overall objectives of Independent auditor & conduct of audit in accordance with SA'S, Quality control for an audit of FS, Quality controls for firm that perform audit & review of historical financial information & other assurance & related services engagements	Acceptance of audit engagement disregarding Independence requirements	The Auditors failed to perform appropriate audit procedures to evaluate and maintain their independence. In spite of Auditors having independence threat, they accepted the audit engagement as statutory auditor by disregarding and grossly violating the principle of independence mentioned in standards of auditing and code of ethics. In view of this, the charge stands proved that the Auditors have violated SQC 1, SA 200 and SA 220.
	SA 200, SA 220, SA 230 & SQC 1	Overall objectives of Independent auditor & conduct of audit in accordance with SA'S, Quality control for an audit of FS, Audit documentation, Quality controls for firm that perform audit & review of historical financial information	Tampering of Audit File and related lapses	The Auditors were charged with tampering with the Audit File to deceive NFRA and making the Audit File unreliable, as audit workings have been done in editable Excel files without any security feature to prevent alteration of audit documentation. The Audit File has, inter alia, 87 Excel files, out of Which 68 Excel files were modified between , the date when NFRA asked for the Audit File, the date the Audit File was submitted to NFRA. Further, two files namely "Planning Compliance & Review Summary" and "Deferred Tax (Working)" were created after when NFRA asked for the Audit File. Such modifications and additions in the

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		& other assurance & related services engagements		Audit File are not permissible as per SA 230 and amount to tampering. Further, as per SQC-1, SA 200 and SA 220, the Audit Firm and the Engagement Team are required to adhere to ethical principles like integrity & professional behavior. The Audit File is required to be assembled within 60 days of the signing of the audit report. However the auditor did not comply with the same. The clear evidence of the Auditors tampering with the Audit File without valid reasons, coupled with their delaying tactics in acknowledging communications (email, letter) from NFRA, displays unprofessional behaviour.
	CARO 2016 and SA 200, SA 240, SA 315, SA 330 and SA 550.	Overall objectives of Independent auditor & conduct of audit in accordance with SA'S, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements, Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and	Lapses in audit relating to fraudulent transactions of ₹ 3,769.61 crores with MACEL	The company was involved in evergreening of loans and round tripping of funds with the ulterior motive of understating the loan to MACEL. These loans were never repaid by the group companies, but financial statements were manipulated to conceal the real picture. The financial positions of MACEL showed that it had negligible business operations, had negative net worth, and was used as conduit by promoters to siphon off money from company. These were sufficient evidence that MACEL lacked the financial strength to repay loans and accordingly recognition of impairment loss allowance and writing off of non-recoverable portion of loans was required to be made but Company did not do so and the Auditors did not question the

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		Its Environment, The Auditor's Responses to Assessed Risks, Related Parties		management and did not perform any audit procedures to obtain sufficient and appropriate audit evidence to determine whether CDGL's decision in this regard was in accordance with provisions of IND AS 109. Therefore, it was held that the charge on this count stands proved and uphold that the Auditors have violated section 143(3) (e), 143(12) of the Act, CARO 2016 and SA 200, SA 240, SA 315, SA 330 and SA 550.
	SA 200, SA 240, SA 315, SA 330 and CARO	Overall objectives of Independent auditor & conduct of audit in accordance with SA'S, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements, Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment, The Auditor's Responses to Assessed Risks	Lapses in audit relating to fraudulent understatement of advance to MACEL by Rs 222.50 crores and failure to detect evergreening of loans	In light of glaring lack of evidence to support a valid business reason for the round-trip transfers of funds and clear indications that CDGL's funds were being misappropriated, resulting in a material misstatement of the financial statements, and fraud, and the Auditors' failure to perform requisite additional auditing procedures and questions such transactions, It was conclude that the Auditors did not exercise the necessary professional skepticism to determine whether these transactions posed a risk of material misstatement due to fraud and failed to obtain sufficient appropriate audit evidence in respect of these circular transactions. The Auditors' contention that section 143(1) of the Act provides certain rights to auditor and does not cast any duty on the auditor is not acceptable as the auditor is required by section 143(1)(b) to inquire whether the transactions of the company which are represented merely by book entries are prejudicial to the

NFRA Orders

Sr. No.	SA No. Ind AS No.	Reference of SA / Ind AS Para	Topic for Non Compliance	Explanations
				interest of the company. Obviously, the Auditors have failed to comply with these provisions in this case. In view of the analysis, the charge is proved that the Auditors have violated section 143(1)(b), 143(12) of the Act, SA 200, SA 240, SA 315, SA 330 and have violated CARO.
	SA 200, SA 240, SA 315, SA 330	Overall objectives of Independent auditor & conduct of audit in accordance with SA'S, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements, Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment, The Auditor's Responses to Assessed Risks	Lapses in audit relating to diversion of Rs 130.55 crores to M/s Classic Coffee Curing Works	Internal financial control over financial reporting is designed and implemented to prevent, and detect fraudulent transactions. However, based on the above analysis, we find that controls were totally absent in CDGL in release of supplier advances & loans, and banking transactions and there was total management override of controls in these areas. Any significant deficiencies or material weaknesses in internal controls must be revealed by the Auditors, but we find that instead of reporting their absence, the Auditors falsely reported that CDGL had adequate Internal Financial Controls with reference to financial statements and that these were operating effectively. The reply of the Auditors that they have provided disclaimer of opinion in this matter is factually incorrect as they had given an unmodified opinion, and this statement is tantamount to misrepresentation of fact in an adjudication proceeding under Section 132 (4) of the Act. From the above analysis, it was held that the Auditors have failed to perform the required statutory duties in accordance with the provisions of

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				SA 200, SA 240, SA 315, SA 330 and Section 143(1)(b), 143(3)(e), 143(3)(i), 143(12) and failed to report violation of section 177 of the Act by CDGL.
3	Sun & Shine Worldwide Limited (SSWL)			NF-23/05/2021 dated 19.05.2023
	SA 200	Overall objectives of Independent auditor & conduct of audit in accordance with SA'S	Failure in evaluation of accounting policy relating to recognition of revenue	There is no evidence in the audit file to demonstrate that the EP had obtained from the company its accounting policy on revenue recognition and evaluated whether it was complying with the fundamental principles of accounting standards and whether it was capable of presenting a true and fair view of the affairs of the company. The EP has in this regard referred to his two letters to the Audit Committee, which do not form the part of the audit file, and therefore are rejected as an afterthought. These lapses led to EP's failure in challenging the overstatement of purchase and sales figures and ultimately led to failure in presenting a true and fair position of financials of the company for the FYs 2012-13 and 2013-14. It was noted from the SEBI Order in the case that from December 2012 onwards, around the same time that SSWL started reporting its inflated purchase and sales figures, the price of the SSWL scrip on BSE jumped to 42 and from then onwards the price kept on increasing, reaching around Rs 85 in February 2014 and thereafter the price started declining, again falling to Rs 25.55 in August 2014.

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				The SEBI Order noted that SSWL published its financial statements which contained manipulated sales and purchase figures till March 2014. It was observed that such accounting manipulation had serious adverse effect on public interest, as reflected in the share price movements, and it was held that the failure of the EP to properly audit such figures is a clear evidence of his gross negligence and professional misconduct. As pointed out earlier, there was overstatement of sales up to the extent of 1310 crores (i.e., overstatement by 1099% in FY 2012-13 & 272% in FY 2013-14), which is a material misstatement as per Para 13(i) of SA 200.
	SA 240	The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements – Para 47 of SA 240	Non evaluation of risk of fraud in revenue recognition	The contention of the EP that he did not presume the risk in revenue underlines the open admission of his gross negligence and lack of due diligence in the face of such contradictions between the reported and actual state of affairs in the Company, which the auditor failed to identify and report and therefore his defence of his actions is baseless. Such a huge increase in revenue as indicated above warranted a risk assessment and therefore, the EP had to document the rationale behind non-presumption of the risk in revenue in compliance with Para 47 of SA 240.

Sr. No.	SA No. Ind AS No.	Reference of SA / Ind AS Para	Topic for Non Compliance	Explanations
	SA 530	Audit Sampling – Para 7 and 8 of SA 230	Non-selection of sample as prescribed in the SA	It was found that in the statement submitted to SEBI, the EP had stated that the sample of contract notes was selected by SSWL and not by the EP or by his team. The statement of the EP is quoted as below: "I had checked the contract notes on a sample basis. The sample was selected by the company, and I had not sought any specific sample/ trade related contract notes." No audit documentation in the Audit File regarding contract notes was found. Notwithstanding the same, if the reply of the EP to SEBI is to be believed, then there were glaring procedural deficiencies, as the contract notes were selected by the company and not by the EP. The sampling approach of the EP was also not in compliance, which specify appropriate sample size and its selection method. "The auditor shall determine a sample size sufficient to reduce sampling risk to an acceptably low level." SA 530 states that, "The auditor shall select items for the sample in such a way that each sampling unit in the population has a chance of selection." As the sampling was not done by the EP, he failed in his responsibility to ensure an appropriate sample size reflecting the population and reduce the sampling risk to an acceptable level. The EP further stated in his reply to NFRA that "We have verified the Contract note and in my statement to SEBI, it has also been informed.

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				So far, the sampling of the Contract note is concern, we have given certain dates to the accounting persons and over and above those dates we told them to provide the contract notes on some random basis so that at least it will cover a significant number of transactions. After verification, my audit concern person has collected all the contract notes and verified the same with the accounts". It was noted that there is clear contradiction between his reply to SEBI and the replies to NFRA, which establishes that the EP is trying to cover up his non-performance of required audit procedures. Further, there is no mention of the contract notes in the audit file. The EP submitted copies of some contract notes along with reply, which are rejected as an afterthought. Accordingly, it was hold that the EP is responsible for failure to comply with the provisions of SA 530 that led to non-verification of the artificially inflated revenue figures of the company.
	SA 300	Planning an audit of Financial Statement – Para 3,7 & 11 of SA 300	Improper Planning of Audit	Para 3 - Auditor to plan the audit in such a manner that it is performed effectively Para 7- Identifying the characteristics of the engagement, facilitating the EP to define its scope and planning of nature,timing & extent of audit procedures required to be performed to achieve the objective of audit

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				Para 11 - requires the auditor to document the overall audit strategy, the audit plan & any significant changes made during the audit engagement to such plans The saying that good planning is success half done is quite relevant in the conduct of audit as well. As per SA 300 and 315, the EP was duty bound to understand the business of the entity, assess the specific risks to the entity and plan his audit to mitigate such risks. However, there is no evidence or documentation in the audit file to show that the EP took any steps to understand the business of SSWL and to plan the audit.
	SA 210	Agreeing the Terms of Audit Engagement	Failure to ensure existence of preconditions for the audit	Evidently, the EP allowed himself to work under conditions of scope limitation. The contention of the EP that low quantum of audit fee and non-bearing of travelling expenses by the company cannot be an excuse for non-performance of the statutory duty. We did not find any document which shows that any communication occurred between the EP and Director of the Company. Absent any interaction with the key management, audit committee etc. it is difficult to accept that the EP had understood the business of the entity and its internal controls. The EP's reference to the two letters written by him to the Audit Committee on 1.8.2013 and 31.7.2014 to claim that he understood the business of the entity cannot be accepted as these letters were written at the time of

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				submitting the draft financial statements and cannot be taken as evidence of any significant interaction with management. Moreover, these are not a part of the audit file, not much credence can be attracted to them. If the EP felt that the limitations had been imposed on performing of the audit by constraints such as travel cost etc., then the EP could have chosen not to accept such audit engagement in accordance with SA 210, which he failed to do. Accordingly, the reply and explanation of the EP is not acceptable and it was held him guilty of having violated SA 210.
	SA 505	External Confirmation	Non verification of balances of Debtors & Creditors	The EP neither adopted the Audit Procedure of external confirmation of balances of the debtors and the creditors, nor adopted the alternate Audit Procedures. It is only when the EP was questioned through NFRA questionnaire, he came up with some replies in support of his carrying out these procedures. As no Audit Documentation was found in support of his stand, his replies are deemed an afterthought and cannot be accepted. The EP's claim that the external confirmation was done through the SSWL, shows his complete disregard for it being done independently of the entity and does not add the required credibility and value to the Audit. By failing to make independent verification, the EP lost the benefit of external confirmation, through which he could have sensed the degree of

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				grave misstatement in purchase and sales. Proper application of Audit Procedures based on Standards on Auditing could save the EP from improper reporting on the Financials of SSWL.
	SA 260	Communication with Those Charged with Governance – Para 6,7, & 8 of SA 260	Non Communication with TCWG	It was examined the reply of the EP and note that the audit committee is only a sub-group of TCWG and not TCWG in itself. As per Para 6 (a) of SA 260, TCWG is defined as the person(s) or organization(s) (e.g., a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. For some entities, those charged with governance may include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager. Therefore, communication of the EP with TCWG was not in accordance with provisions of SA considering the following: a) As per para 7 of SA 260, EP was required to determine TCWG in the first place. For the same, the EP could seek help from paragraphs A5-A12 of SA 260 which elaborates determination of TCWG depending on the diversity of governance structures of different organisations.

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				However, no such working on the part of the EP to determine TCWG was found in the audit file. b) Further, in case of communicating with the audit committee, Para 8 of SA 260 also required the EP to determine if governing body was also required to be communicated with. There is no audit documentation in the audit file regarding any such process performed by the EP. c) Even the communication with the audit committee, referred to in the reply of the EP, was not part of the audit file, but the EP made the same available at the time of replying to NFRA questionnaire. Further, the EP is misquoting the referred communication as Management Representation Letter and also as communication with the TCWG, which reflects his poor understanding of the Standards on Auditing. In view of the above, the reply and explanation of the EP are not acceptable.

Sr. No.	SA No. Ind AS No.	Reference of SA / Ind AS Para	Topic for Non Compliance	Explanations
	SA 220	Quality Control for an Audit of Financial Statements – Para 19(a) of SA 220	Non appointment of EQCR	The EP was charged with failure to adhere to the Para 19 (a) of SA 220 which requires appointment of EQCR for the statutory audit of a listed company. Since SSWL is a listed company, the EP was required to determine that EQCR was appointed. In response to above charge, the EP stated that "Appointment of EQCR is only required for which the firm has determined that an engagement quality control review is required. As discussed earlier since, there is no significant transactions, no EQCR was appointed. Obviously, such reply reflects the EP's poor understanding of the provisions of Standards on Audit. As per para 19 (a) of SA 220, in case of a listed company, appointment of EQCR is compulsory. Further, the contention of the EP that there were no significant transactions in the company is false because he himself has claimed to have verified revenue to the tune of Rs 1,791.01 crores for FY 2013-14. Secondly, presuming there were no significant transactions cannot be an excuse for non-adherence to the audit procedures because the standards require appointment of EQCR in case of a listed company. Therefore, such explanation is not satisfactory of the EP in this regard.

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4	Reliance Capital Limited (RCL)			No. 008/2024 dated 12.04.2024
	SA 299	Responsibilities of a joint auditor – Para 14, 16 & 17 of SA 299.	Violation of the responsibilities of Joint Auditor	Two Audit firms – XYZ and PQR were appointed as joint statutory auditors , there was no division of audit work among the joint auditors. Hence both the joint auditors were jointly and severally responsible for the entire audit work. While XYZ brought some significant matters to PQR, through various communications starting from the letter. These matters included potentially irrecoverable loans and investments significantly material amount made to group companies, which were portrayed as recoverable. Despite these communications, Engagement Partner failed to carry out any independent procedures on these matters. Also the PQR failed to show any evidence in the Audit File of performing any audit procedures to examine and conclude these matters while it was functioning as a joint auditor. One of the key contentions of Engagement Partner is that XYZ did not share the basis/ rationale for their letters and there were no new circumstances in FY 2018-2019 that warranted such a report. Engagement Partner also argues that XYZ did not raise such concerns in the previous financial year or during the limited review up to the third quarter of FY 2018-2019. According to Engagement Partner, the conclusion of XYZ “appears to have been influenced by media news” and are “unsustainable”. The Audit Firm PQR goes on to say that

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				it “also appears that XYZ was finding an excuse to withdraw from the engagement and found an easy route by filing under 143(12) and resigned.....”. It was observed that without any comment on the merits of the actions of XYZ, that the replies of the Auditors are a serious deviation from the fundamental tenets of professional skepticism and professional behaviour required of an auditor as per SA 200 and the Code of Ethics 2009. PQR was the statutory auditor appointed under the Act and was responsible for carrying out the audit as per SAs and the Act, and reporting whether the financial statements and accounts represented a true and fair view of the affairs of the Company. Examining and commenting on the conduct of the joint auditor, who is legally on the same footing as that of PQR, is beyond the scope of section 143 of the Act and the SAs. Thus, based on the above, it stands proved that Engagement Partner and PQR failed to comply with the requirements of SA 299 (Revised) regarding the responsibilities of the joint auditor as there is no evidence in the Audit File that the Auditors performed independent procedures on matters brought to their notice and came to any conclusions regarding XYZ's observations when it was brought to their notice. Hence the charges in para 13 above regarding violation of SA 299 (Revised) are proved.

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	Section 143(12) of Companies Act, 2013	Fraud Reporting to CG	Self review of Financial Statements	Reporting under Section 143(12) is a duty cast on the auditor. Section 143(12) mandates that if an auditor of a company in the course of the performance of his duties as auditor, has reason to believe that an offence of fraud involving such amount or amounts as may be prescribed, is being or has been committed in the company by its officers or employees, the auditor shall report the matter to the Central Government. Further, Rule 13 of the Companies (Audit and Auditors) Amendment Rules, 2015 and Form ADT – 4 provide the manner of reporting and SA 240 provides the basic requirements while auditing. These provide that the auditor reporting the suspected fraud will first take it up with the Audit Committee and the Board seeking their views within 45 days and then file the report in the form ADT-4. All these stipulations when read together make it clear that the reporting on fraud in the course of performance of duties as an auditor is applicable when the auditor has reason to believe and has knowledge that a fraud has occurred or is occurring based on evidence obtained and the professional judgements made. Once it is reported to the MCA, the legal determination of the fraud and admitting or ruling out fraud is a regulatory matter. Neither the Company nor the auditor is competent to make a conclusive legal determination of a statutory matter reported by the auditor as per his evidence and mandate

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				provided in the Act. The normal course of action in this situation for any prudent Company could be initiating an independent investigation into the alleged matters to bring out the truth. However, the points raised by the XYZ were not responded to by the Audit Committee and the Board within 45 days following which XYZ reported the matter under section 143 (12) and also resigned on 11.6.2019. The Audit Committee and the Board thereafter asked the PQR on 12.6.2019 to examine the matter and EP shortly thereafter on 25.06.2019 ruled out any fraud based on their interpretation of the Law and limited and inadequate examination of data produced by the RCL. Using this conclusion of PQR the Company management, its Audit Committee and the Board acquitted themselves of their statutory responsibility in respect of an alleged fraud against them. Engagement Partner and the Audit Firm PQR, in turn, became a willing accomplice by displaying gross negligence of their statutory responsibility. Thus, in this case, P QR ruled out fraud reported by another joint auditor. Also, they did so on being asked by the Audit Committee. It may be noted that the Audit Committee had not even responded to the points raised by XYZ within the 45 days statutory limit The management used PQR's said work (done without adequate rigor) as a disclosure in the

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				financial statements. These financial statements were then audited and an EoM was then included in the Auditor's report that relied on the disclosure made by the management (which itself was based on the Auditor's examination). Thus, the actions of PQR amount to self-reviewing the financial statements.
	SA 706	Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report	Use of EOM	EP used an emphasis of matter paragraph in their audit report to state that the report filed by the resigned joint auditor does not attract section 143 (12). EP also documented in the Audit File that the XYZ's reporting was unwarranted. In this regard, EP and the Audit Firm were charged with issuing an EoM without basis and in violation of Paragraph 8 of SA 706 (Revised). Notwithstanding the above misrepresentation in the EoM, it is also not in accordance with the requirements of the standards. As per Para 8 of SA 706 (revised) if the auditor considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements, the auditor shall include an EoM paragraph in the auditor's report, provided the auditor would not be required to modify the opinion in accordance with SA 705 (Revised) Thus, the EoM was based on matters which were not adequately disclosed in the financial

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				statements. Apart from referring to this the EoM also contains PQR's finding (which was already documented in the Working Paper well before the Board noted this) that the matters reported by XYZ do not attract Section 143(12). The EoM did not mention that the audit opinion is not modified in this regard. The above actions of PQR violate SA 706(Revised). Because of these violations, the Audit Report provided a misleading impression to the users. As demonstrated by the Audit File, neither Reliance Capital Limited nor PQR fully examined the issues raised and reported by XYZ to conclude that there was no fraud.
			Impact on FS of matters arising out of the observation of the resigned auditor	XYZ Resigned from audit & raised certain observation however, EP neither did adequate audit procedures, nor challenged the management on the irregularities in the sanction of loans, and reached a conclusion that the issues raised by XYZ were not attracting the provisions of section 143(12) of the Act. In reaching such conclusions the Auditors violated the applicable SAs as well. In the absence of tests and evidence, there was no assurance about the recoverability of the loans and hence the management's assertions about the value and rights of these loans were materially misstated in the financial statements, which PQR failed to report. Also, the actual valuation of investments, the rationale for sanctioning loans and investments to potential non-creditworthy entities and the

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				adequacy of provisions remained inadequately examined in all cases. These factors cumulatively contributed to the ROMM due to fraud, which PQR ruled out without adequate audit procedures, despite having been raised by the resigned joint auditor. The conclusion drawn by the Auditors that there were no material misstatements in the financial statements, either due to fraud or error, is therefore without adequate basis since there is no sufficient evidence showing that the loans of ₹ 6557 crore (net of impairment) disclosed in the financial statements are fairly presented and are fully recoverable. Consequently, the opinion of PQR confirming the management's assertions is without adequate basis. Such lapses in adequately responding to audit risks are viewed seriously by international audit regulators.
	SA 220, 230 & SQC 1	Quality Control for an Audit of Financial Statements, Audit Documentation	Verification of Lending Policy	The EQCR Partner submits that the documentation requirements of SA 230 do not apply to his work. This contention is misplaced. The documentation requirement in Para 25 of SA 220 is specific to SA 220. Nowhere in the SAs or SQC 1 does it state that the documentation requirements of Para 73 of SQC 1 and Para 25 of SA 220 (both the requirements are similar) are the only documentation requirements that the EQC Reviewer shall follow. SA 230 explicitly states in para 1 that the specific documentation

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				requirements of other SAs do not limit the application of SA 230. As per SA 230, Audit documentation serves several purposes including evidence that the audit is planned and performed in accordance with the SAs. Therefore, performance by the EQCR of the mandatory requirements of SA 220 shall be evidenced by documentation, adhering to the principles of SA 230, particularly Paras 8, 9 and 10. The mandatory requirements for EQCR are specified in paras 20 and 21 of SA 220. The key procedures specified include a discussion of significant judgements made by the ET, a review of Financial Statements and a review of selected audit documentation. Documentation of a mandatory procedure in an SA is a compulsory requirement of SA 230 and it forms the base of any audit under the Companies Act since SAs need to be statutorily complied with. Since it is the statutory responsibility of the auditor to comply with all the SAs including SA 220. Hence it is imperative that to meet the requirements of SA 220 and SQC 1, the documentation done by the EQCR shall have to be per the requirements of SA 230 and SA 220. Documentation prepared as per SA 230 and specific documentation requirements of other SAs provide evidence that the audit is performed following SAs and the applicable legal and regulatory requirements (Para 2 of SA 230).

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				Thus, specific documentation requirements of any SA alone cannot meet this requirement, since mandatory procedures are prescribed in all the SAs. SA 220 is no exception as far as EQCR is concerned. Thus, we conclude that the EQCR Partner failed to objectively evaluate and question EP when EP failed to meet the relevant requirements of the SAs and violated the Act, and the Code of Ethics in respect of several significant areas. Hence the charges in Paragraph 63 above stand proved.
5	CMI Limited			Order No. 013/2024 dated 26.04.2024
	SA 705, SA 706, SA 200, IND AS 109	Para 3.3.1 and Para 4.2.1 read with Para B5.4.1 of Ind AS 109, Para 13(i) of SA 200, Para 8 of SA 706	Failure related to non-recognition of liabilities classified as Non-Performing Assets (NPAs) by the Lender Banks	Audit from were charged with failure to report in their audit report the material misstatement due to not accounting by CMIL of the liabilities towards banks/financial institutions after the liabilities became NPA in the banks books, which was not in conformity with Ind AS 109 and therefore is a "Misstatement" as per SA 200. The auditors merely presented the matter as EoM instead of modifying their opinion in accordance with SA 705. The auditors claimed that they had qualified their opinion on the basis of "The company's loans have been declared by the Banks/Financial Institution as Non Performing Assets" and they also submitted "In addition to this qualified opinion, we had mentioned non-recognition of liability on Non-performing Assets

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				under Emphasis of Matter. We have mentioned the matter under qualified opinion as well as mentioned under Emphasis on Matter (EoM) both." But the auditors report states that the auditors qualified their opinion on the basis of going concern of CMIL. Non-recognition of the liabilities towards banks/financial institutions even after they declared NPAs is not in conformity with Para 3.3.1 and Para 4.2.1 read with Para B5.4.1 of Ind AS 109. This is a "Misstatement" as per Para 13(i) of SA 200 resulting in understatement of the interest cost, current liabilities, and the reported loss by the Company. The auditors were required to qualify the amount of mis-statement and duly modify the opinion in accordance with SA 705. Merely presenting the matter as EoM was in violation of SA 705. Para 8 of SA 706 states that the auditor shall include an EoM paragraph in the auditor's report, provided the auditor would not be required to modify the opinion in accordance with SA 705 as a result of the matter. Therefore, inclusion in the EoM of a matter that would have required consideration for modifying the audit opinion was a violation of SA 706.

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	SA 570	Para 7 and Para 12 read with Para A7 and A9 of SA 570, Para A3 of SA 570	Failure to evaluate the management's assessment of the entity's ability to continue as a Going Concern	During the FY 2020-21, there were several indicators which when considered individually and in aggregate, could raise serious doubts about the 'Going Concern' assumption and, therefore, required the auditors to evaluate management's assessment of the entity's ability to continue as a going concern of CMIL. Such indicators included continuous declining trend in Revenue From Operations of CMIL, Profit After Tax (PAT), Net Worth, Book Value per Share of CMIL and also negative working capital in FY 20-21. Despite the presence of such indicators, no evidence was found in the Audit File of the management's assessment of the entity's ability to continue as a going concern; nor was any evaluation conducted by the auditor of such assumption as required by Para 7 and Para 12 read with Para A 7 and A9 of SA 570. The auditors examined CMIL's declining turnover and negative PAT, prompting them to inquire about management's approach to preparing financial statements under the going concern principle for FY 2020-21. After reviewing management's response and supporting documents, as well as considering industry conditions during the Covid-19 pandemic, the auditors accepted management's contention and proceeded with the going concern approach for CMIL's financial statements. But such contention is unacceptable as there is no evidence of the

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				auditor's communication with management, and the reply and the supporting documents submitted by the management in the Audit File. There is no evidence to show that the auditors evaluated the appropriateness of the use of Going Concern basis of Management. There is no evidence that the auditors performed additional audit procedures like analysis of the cash flows for the next 12 months to determine whether or not a material uncertainty existed relating to the events or conditions that could cast significant doubt on CMIL's ability to continue as a Going Concern. 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. These indicators include negative operating cash flows indicated by Financial Statements, adverse key financial ratios, substantial operating losses, inability to comply with the terms of loan agreements etc. It is pertinent to note that all such indicators were present during the FY 2021-22 and therefore, the auditors were duty bound to obtain evidence in support of the use of going concern basis and had to evaluate the same to conclude if any material uncertainty existed regarding the Going Concern.

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	SA 200, SA 240 and SA 315	Para 11(c) of SA 315, Para 47 of SA 240, Para 26 of SA 240	Failure relating to identifying and assessing the ROMM in Revenue Recognition	Para 26 of SA 240 specifically states that "when identifying and assessing the Risk of Material Misstatements (ROMM) due to fraud, the auditor, based on a presumption that there are risks of fraud in revenue recognition, shall evaluate which types of revenue, revenue transactions or assertions give rise to such risk". Para 47 of SA 240 states that when the auditor has concluded that the presumption that there is a risk of material misstatement due to fraud related to revenue recognition is not applicable in the circumstances of the engagement, the auditor shall document the reasons for that conclusion. Despite the auditors' assertion of verification through GST returns and reconciliation, the absence of supporting evidence in the Audit File raised concerns. Crucially, they neglected to assess revenue recognition against the company's policy and omitted documentation of essential audit procedures. Fundamental assertions such as occurrence, completeness, and accuracy of revenue lacked sufficient verification. The shortfall extended to the absence of GST returns and sample invoices, further undermining their position. The auditors were thus accused of gross negligence and a lack of due diligence, indicating a failure to fulfill their obligations according to auditing standards and global regulatory expectations.

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	SA 230	Para 8 of SA 230, Para 9 of SA 230	Failures relating to Audit Documentation	The auditors faced charges for failing to prepare adequate audit documentation in line with the requirements outlined in SA 230. According to Para 8 of SA 230, audit documentation should sufficiently detail the nature, timing, and extent of audit procedures, the results obtained, and significant matters and judgments made during the audit. Para 9 specifies that documentation should include identifying characteristics of items tested, personnel involved, and review details. In their response, the auditors claimed that previously submitted documentation would suffice for understanding audit procedures and outcomes. They also submitted various documents as part of their response, including physical verification copies, bank sanction letters, and balance confirmation letters. However, the audit review found this response misleading and inadequate, noting critical missing working papers such as inventory verification, loan agreements, and materiality assessments. Furthermore, none of the audit documents bore signatures, dates, or the audit firm's seal, failing to meet basic requirements of SA 230. The auditors' explanation during the personal hearing, citing office relocation and peer review, was deemed unacceptable. The documents submitted alongside their response were considered insufficient and vague, not meeting

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				SA requirements. The absence of proper audit documentation raised serious concerns about the auditors' negligence and lack of diligence, violating SA 230 objectives. This deficiency was highlighted with references to global audit regulators like ASIC and PCAOB, which similarly emphasize the importance of comprehensive documentation. In past cases such as penalties and sanctions were imposed for insufficient documentation, reinforcing the seriousness of such lapses. Consequently, the auditors' explanation was deemed unacceptable, and they were found to be grossly negligent in adhering to SA 230.
	SA 501	Para 4 of SA 501, Para 5 of SA 501, Para 6 of SA 501	Failures relating to audit evidence for Inventory	The auditors faced allegations of failing to conduct physical verification or alternative audit procedures to ascertain the existence and condition of inventory, as mandated by SA 501. According to SA 501, when inventory holds material significance, auditors must obtain sufficient appropriate evidence through physical inventory counting or examination of final inventory records. Even if physical counting occurs on a date different from the financial statements, additional procedures to verify inventory changes are required. In unforeseen circumstances preventing physical counting, auditors must conduct

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				counts on an alternative date and scrutinize intervening transactions. In response, the auditors cited constraints in conducting physical verification amid the COVID-19 outbreak for fiscal years 2019-20, 2020-21, and 2021-22. They provided stock taking details and management letters and also claimed to have conducted the physical verification in April. However, NFRA found no adequate evidence/documentation of physical verification of inventories, the Audit File merely contains the stock statements as prepared by CMIL. Consequently, the auditors' response was deemed misleading and insufficient, indicating gross negligence in complying with SA 501 requirements. International regulatory bodies like the PCAOB have similarly viewed lapses in inventory audit seriously, with sanctions imposed for failure to obtain adequate audit evidence. In cases such as AMC Auditing, LLC, and W.T. Uniack CPA, P.C., sanctions were levied due to insufficient evidence and a lack of professional care in inventory auditing, emphasizing the necessity of rigorous audit procedures for inventory verification.

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	SA 700	Para 11 of SA 700	Failure relating to forming opinion on Financial Statements without obtaining Sufficient Appropriate Audit Evidence	The auditors faced accusations of failing to form an opinion on Financial Statements without obtaining sufficient appropriate audit evidence, as mandated by SA 700. According to Para 11 of SA 700, to assert that the Financial Statements are free from material misstatements, auditors must gather adequate audit evidence. In response, the auditors asserted compliance with SA requirements, claiming to have obtained audit evidence before forming their opinion. They referred to documents submitted with their response to the SCN. However, the audit review found their explanation erroneous and an afterthought. Several instances of material misstatements were identified where auditors failed to obtain sufficient appropriate audit evidence, yet certified the Financial Statements of CMIL for fiscal years 2019-2020, 2020-21, and 2021-22 (excluding going concern) as reflecting a true and fair view. This demonstrated a lack of understanding and application of SA provisions, reflecting a casual approach to auditing a Public Interest Entity (PIE). The auditor's opinion in the audit report carries significant weight, serving as assurance to stakeholders about the accuracy of the Financial Statements. Failure to form an opinion without sufficient evidence represents not only gross negligence but also a breach of trust placed by users of the Financial Statements. Consequently, the auditors' response

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				was deemed unacceptable, and they were found to be grossly negligent in fulfilling their duties in accordance with SA 700. This highlighted the critical importance of auditors' responsibilities in ensuring the integrity and reliability of Financial Statements for stakeholders.
	SA 220	Para 19(a) of SA 220	Lapses in fulfilling duties related to Engagement Quality Control (EQC) Reviewer	The auditors faced allegations of failing to comply with Para 19(a) of SA 220, which mandates the determination of an Engagement Quality Control (EQC) Reviewer for audits of Financial Statements of listed entities. Despite CMIL's status as a listed company for fiscal years 2019-2020, 2020-21, and 2021-22, no evidence was found in the Audit File indicating the appointment of an EQC Reviewer or any review work performed by one. The auditors did not address this charge in their response to the SCN. The role of an EQC Reviewer in auditing listed entities is critical for ensuring quality. This individual evaluates significant judgments made by the Engagement Team (ET), reviews the firm's independence evaluation, ensures appropriate consultation on difficult matters, and reviews the conclusions forming the overall audit opinion. Such responsibilities necessitate the formal appointment of an EQC Reviewer with sufficient experience and authority. Consequently, the auditors' failure to appoint an EQC Reviewer was deemed gross negligence, violating SA 220

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				requirements. This failure to comply has also been viewed seriously by international regulators. For instance, the PCAOB censured firms like XYZ & LLP for similar misconduct, imposing civil penalties and revoking registrations. These actions underscore the importance of adherence to audit standards and the seriousness of lapses in engagement quality control, reflecting the regulatory emphasis on maintaining audit quality and integrity.
	SA 320	Para 10 of SA 320, Para 14 of SA 320, Para 11 of SA 320	Failure to determine Materiality	The auditors faced allegations of failing to determine materiality for the Financial Statements and document their assessment, as required by SA 320. In response, the auditors claimed to select samples covering a major portion of transactions and verify material ones, submitting a materiality statement. However, the audit review found their response misleading and unacceptable. No evidence existed in the Audit File to demonstrate compliance with SA 320 and ICAI guidance on materiality. The document submitted lacked authenticity, lacking the seal and signature of the EP. SA 320 mandates the determination of materiality for the Financial Statements and performance materiality during the overall audit strategy establishment. The use of "shall" in Para 10 and 11 of SA 320 highlights the mandatory nature of these requirements.

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				The absence of working papers in the Audit File evidencing materiality determination led to the conclusion that auditors failed to comply with these mandatory requirements. Consequently, their assertion of conducting the audit in accordance with SA specified under Section 143(10) of the Act was deemed false. This failure to determine materiality and document it accordingly raises concerns about the integrity and accuracy of the audit process. Adherence to auditing standards is crucial to ensure the reliability and trustworthiness of Financial Statements, highlighting the seriousness of this lapse in audit practice.
	SA 200, SA 500 and SA 505	Para 17 of SA 200, Para 6 of SA 500, Para 2 of SA 505	Failures related to audit of Trade Receivables	The auditors faced accusations of failing in the audit of Trade Receivables, violating SA 200, SA 500, and SA 505. SA 200 mandates obtaining sufficient appropriate audit evidence to reduce audit risk and draw reasonable conclusions. SA 500 requires designing and performing appropriate audit procedures, while SA 505 emphasizes the reliability of evidence from independent sources outside the entity. In response, the auditors claimed that the company regularly sent letters to debtors seeking balance confirmations, but they received no responses from debtors. Thus, they considered the debtors' balances as correct. However, the audit review found their response misleading and an afterthought. The audit file lacked

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				evidence of procedures required by SAs for confirming audit assertions and external confirmations of Trade Receivables. There were no documented rationales for not obtaining external confirmations. Additionally, the auditors' reliance on confirmation letters from the company was deemed problematic, given their responsibility to select receivables for confirmation based on sampling and materiality levels. The failure to verify balances through alternative procedures, despite the lack of responses from debtors, further raised concerns about their audit approach. Consequently, the auditors were deemed grossly negligent in performing their duties in violation of SA 200, SA 500, and SA 505. This highlighted significant deficiencies in their audit procedures and the importance of adhering to auditing standards to ensure the accuracy and reliability of financial information.
	SA 260 and SA 265	Failures relating to communication with Those Charged With Governance	Non Communication with TCWG	The auditors were accused of failing to determine the TCWG, communicate with them about auditor responsibilities, planned audit scope, timing, and internal control deficiencies, violating SA 260 and SA 265. The absence of evidence in the Audit File indicated the auditors' failure to identify and engage with the TCWG, neglecting its crucial oversight role in the entity's strategic direction and financial reporting

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				process. The auditors did not address this charge in their response to the SCN. Consequently, it was concluded that the auditors exhibited gross negligence by neglecting to identify and communicate with the TCWG, failing to overview the planned audit scope, timing, and internal control deficiencies, thus violating SA 260 and SA 265. Failure to appropriately communicate with the Audit Committee, a part of the TCWG, has been viewed seriously by international regulators, as evidenced by the PCAOB's actions against L.L. Bradford & Company, LLC, for similar violations in another audit case. This highlights the seriousness of the auditors' lapse in adhering to auditing standards and communicating effectively with relevant oversight bodies.
	Section 143(9) of the Companies Act, 2013		Failure of non-compliance of Standards on Auditing	The auditors faced charges for failing to comply with Section 143(9) of the Companies Act, 2013, which mandates compliance with the SAs. In response, the auditors claimed they had adhered to the SAs and formed their opinion accordingly. However, this response was deemed erroneous, given the errors and omissions highlighted earlier. Consequently, it was concluded that the auditors had exhibited gross negligence in their professional duties, breaching Section 143(9) of the Companies Act, 2013. This underscores the severity of their failure to comply with regulatory requirements and auditing standards.

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6	SRS Limited			Order No. 20012/2/2022 dated 21.04.2023
	SA 240, SA 230	Para 16 and 24 of SA 240	Suspected Fraud: Lapses in fulfilling auditor's responsibilities	The EP (Engagement Partner) faced charges for failing to adhere to responsibilities concerning fraud/suspected fraud as required by SA 240. Despite the standard's directives on performing risk assessment procedures to identify material misstatement risks due to fraud, the EP's audit documentation lacked evidence of adequate procedures. The EP claimed to have enquired about an FIR against SRS Group's managerial personnel and the company's stock exchange intimation about fraud/default, yet no substantial information was obtained. The EP reported the matter to the MCA, citing a prudent approach, although not obligated to report it. However, the reply lacked supporting audit documentation for the extensive internal control checks, analytical procedures, substantive testing, and sampling claimed to have been performed. The NFRA found the EP's explanation misleading, highlighting significant indicators of unusual/suspicious activities, such as a drastic decline in inventory levels and substantial provisions against trade receivables. Despite these indicators, the EP failed to provide evidence of appropriate audit procedures. Moreover, the EP's quarterly review reports on internal financial results had been qualified due to uncertainties and highlighted

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				the company's difficulties in repaying credit facilities. The EP's failure to take appropriate steps, despite prior indications of potential fraud, demonstrated gross negligence. Regarding the EP's claim of extensive audit work, the NFRA found the provided audit documentation inadequate. The EP's references to analytical procedures were routine queries, lacking depth or relevance. Furthermore, the EP failed to adequately evaluate unusual transactions or the reasons behind significant provisions made by the company. The audit documentation also lacked clarity on population size, sample selection, and handling of discrepancies, violating SA 230 requirements. The NFRA concluded that the EP's negligence and lack of due diligence in ignoring indicators of potential fraud constituted a breach of responsibilities under both the Companies Act and SA 240.
	SA 220, SA 230	Quality Control for audit of Financial Statements and Audit Documentation	Failure to comply with the requirements of SA 230 read with para 75 of SQC 1	The EP faced charges for failing to adhere to responsibilities related to audit documentation, as required by SA 230 and Para 75 of SQC 1. Despite denying the charges, the EP provided no explanation or documentation to support their denial. An analysis revealed significant deficiencies in the audit file, including the absence of critical working papers such as the audit plan, evaluation of materiality, assessment of fraud risk, details of EQCR (Engagement

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				Quality Control Review), and minutes of meetings with relevant stakeholders. Most of the submitted audit work papers failed to meet the basic requirements outlined in SA 230 regarding the nature, timing, and extent of audit procedures performed, as well as the identification of personnel involved and review details. Furthermore, the index of the audit file indicated the presence of an audit program, yet it was missing from the submitted documents, suggesting incomplete documentation. This incompleteness raised concerns about the integrity of the audit file and the possibility of tampering. Such tampering has been considered a serious concern by regulators like the PCAOB, leading to penal actions against auditors. Appropriate and timely documentation of audit procedures is crucial for ensuring the integrity of the audit process and forming the basis for audit opinions. Inadequate documentation and failure to archive the audit file within the stipulated time reflect a serious deficiency in performing an audit. Without proper documentation, it is impossible to ascertain whether the required audit procedures were indeed performed. Based on these findings, the EP's response was deemed unacceptable, and it was concluded that the EP was grossly negligent in performing their duties in accordance with SA 230 and Para 75 of SQC 1.

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	SA 570, SA 705	Para 12 & 23 of SA 570,	Lapses relating to Going Concern basis of accounting	The EP faced charges of noncompliance with SA 570 concerning the audit of financial statements related to the "Going Concern" assumption. Despite several adverse indicators in the financial statements as of March 31, 2018, suggesting doubts about the company's ability to continue as a going concern, the EP failed to adequately evaluate management's assessment as required by Para 12 of SA 570. In response to the charge, the EP claimed to have attempted an evaluation by querying management about the going concern assumption and holding discussions regarding projected revenues. However, the EP found the management's responses insufficient to substantiate the company's ability to continue as a going concern. Consequently, the EP issued a qualified opinion based on the presence of material uncertainty. However, the NFRA found several deficiencies in the EP's response and audit documentation: 1. Lack of evidence in the audit file of any assessment made by the EP regarding the going concern assumption, including failure to evaluate indicators listed in Para A3 of SA 570. 2. Failure to comply with Para 23 of SA 570, which requires expressing a qualified or adverse opinion if adequate disclosure about material uncertainty is not made in the financial statements.

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				3. Inadequate documentation supporting the decision to issue a qualified opinion instead of considering an adverse opinion, despite indicators suggesting material and pervasive uncertainty. The NFRA emphasized the importance of the auditor's opinion in providing assurance about the true and fair status of financial statements to stakeholders. The EP's failure to give an appropriate audit opinion was considered a breach of professional competence, due care, and trust. Therefore, the EP's reply and explanation were deemed unacceptable, and the EP was held grossly negligent in performing their duties in accordance with SA 570 and SA 705.
	SA 300, SA 320		Failure to comply with the requirements of SA 300 and SA 320	The EP faced charges for not developing and documenting the audit plan and strategy, as required by SA 300, and for not determining materiality for the financial statements as required by SA 320. In response, the EP claimed to have established the overall strategy, plan, program, and checklist for the audit but failed to submit it due to an error. However, the document submitted lacked authentication and integrity. Similarly, regarding materiality determination, the EP set materiality at 1% of total assets and performance materiality at 75%, but failed to adequately document justification or specifics. Analysis revealed that the documents

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				submitted were not part of the audit file and lacked authentication, showing negligence. The EP's failure to plan the audit and set materiality demonstrated a casual approach, resulting in non-compliance with SA 300 and SA 320, indicating gross negligence in performing duties.
	SA 220	Para 19(a) of SA 220	Lapses in fulfilling duties related to Engagement Quality Control Review (EQCR) Partner	The EP was charged with failing to comply with the requirement of paragraph 19(a) of SA 220, which mandates appointing an Engagement Quality Control Reviewer (EQCR) for audits of financial statements of listed entities and prohibits dating the auditor's report until completion of the EQCR review. In response, the EP claimed to have appointed as the EQCR, citing his qualifications and contributions during the audit. However, EQCR confirmation lacked formal documentation. Analysis revealed: 1. Lack of formal appointment of the EQCR, contrary to SA 220 requirements. 2. Misleading portrayal of EQCR experience, contradicted by his own statements. 3. Emails exchanged between the EP and EQCR lacked clarity on the nature of queries and their resolution.

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				In audits of listed entities, the EQCR plays a crucial role in ensuring quality by evaluating significant judgments, reviewing independence, facilitating consultation on contentious matters, and reviewing audit opinion formation. Absence of documentary evidence beyond email exchanges raised doubts about EQCR actual appointment and performance as EQCR. The EP's and EQCR's submissions were deemed misleading, false, and in breach of ethical principles. The EP was found guilty of gross negligence and submitting false information, violating SA 220.
	SA 299	Para 2 and Para 3 of SA 299	Failure to comply with the requirements of Joint Audit	The EP faced charges for failing to adhere to responsibilities related to joint audits as required by paragraphs 2 and 3 of SA 299, which mandate mutual discussion and documentation of the division of audit work between joint auditors. In response, the EP claimed that the audit work for SRS Limited for FY 2017-18 was discussed and agreed upon by both firms involved. He provided an email dated 29.07.2017 as evidence of the division of work, refuting the suggestion that the company's management decided the allocation. He also discredited his previous statement to the SFIO, attributing it to undue pressure. However, analysis revealed:

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				Lack of documentation in the Audit File regarding the division of work among joint auditors, contrary to SA 299 requirements. They provided document, though not part of the Audit File, was generic and lacked detailed division of audit work, casting doubt on its authenticity. Lack of evidence supporting the claim that the company's management determined the allocation of work. Due to insufficient documentation and evidence, the EP's claim of mutual agreement on the division of work between joint auditors was deemed questionable. The EP's failure to adhere to SA 299 requirements demonstrated gross negligence, compromising the principle of auditor independence. Therefore, the EP was found guilty of not fulfilling the requirements of SA 299, which necessitates mutual discussion and adequate documentation of the division of audit work.
	Section 143(9) of the Companies Act, 2013		Non-Compliance of Standards on Auditing	The EP faced a charge of failing to comply with Section 143(9) of the Companies Act, 2013, which mandates auditors to adhere to the Standards on Auditing (SAs). In response, the EP argued that Auditing Standards are guiding principles and asserted compliance with relevant principles while

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				auditing SRS Ltd. However, analysis revealed: 1. The EP's response was deemed baseless and misleading in light of earlier proven non-compliance with various SAs. 2. The EP seemed unaware that SAs, effective since 01.04.2008, use the term "Shall" instead of the previous "Should," aligning with changes in the International Standards on Auditing (ISAs). Therefore, SAs impose mandatory obligations rather than merely offering guiding principles. Hence, the EP's explanation was rejected. It was found that the EP was grossly negligent in violating Section 143(9) of the Companies Act, 2013, by not adhering to the mandatory requirements of the SAs.
7	Dewan Housing Finance Limited Corporation (DHFLC) (FY 17-18) - Branch Audit			NF-21/1/2022/02 and NF-21/1/2022/06
	Chartered Accountant Act, 1949 and Companies Act 2013, SA 200	Section 139 of Companies Act, 2013 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".	Acceptance of audit appointment without valid authorization and without complying with ethical requirements; and issuing an audit report in violation of the Act	EP accepted an audit appointment without complying with ethical requirements and issuing of audit report 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. Despite a specific requirement in the Chartered Accountants Act, 1949 (CAs Act) to do so, the EP has not verified if the

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				appointment as "Statutory Auditor for the branches" of the Company was done in compliance with section 139 of the Act. The EP not only accepted an invalid appointment letter issued by an "Authorised Signatory" without the approval of the Board and shareholders but also issued the audit report without ascertaining the actual objective and scope of the audit. The EP also violated the ethical requirements, as laid down in the Code of Ethics, 2009, which require the EP 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. Thus, the EP did also not comply with SA 200.
	SA 210	SA 230 - Audit documentation	Non-compliance with SA	EP's 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 as required by SA 230. In terms of SA 230, 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 EP issued to principal auditor , the statutory auditor, was without sdequate basis and was in violation of SAs.29.

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				There is no evidence in the Audit File to indicate that the EP had performed audit procedures and documented the conclusion, nature, timing and extent of the procedures performed, in the following cases. - The Audit File does not contain the basic documentation such as Understanding the branch operations, internal controls and responsibilities at various levels in the branch (refer to SA 315), Determination of materiality levels (refer to SA 320) and Understanding of the IT system controls (refer to SA 315); - Summary of the accounting policies, observations from previous audits, inspection reports, and internal audit reports (refer to SA 315); - Proof of verification of trial balance items, including assets (substantive audit procedures); - Procedures adopted to verify the loans sanctioned during the year and classification of loans as per regulatory norms (substantive audit procedures); and - KYC verification, anti-money laundering verification, and security verification (substantive audit procedures).

Sr. No.	SA No. Ind AS No.	Reference of SA / Ind AS Para	Topic for Non Compliance	Explanations
	SA 700	Forming an Opinion and Reporting on Financial Statements"	Non-compliance with SA	As per SA 700, in order to form an opinion, the auditor shall conclude as to whether the auditor has obtained reasonable assurance whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Such a conclusion shall take into account, inter alia, whether sufficient appropriate audit evidence has been obtained and whether uncorrected misstatements are material, individually or in aggregate. In the Annexures to the audit report, EP noted that for some of the loan files reviewed required documents were not obtained. Also, there is no documentation of whether any unadjusted misstatements were material or not. The EP did not document anywhere how these possible misstatements were evaluated in forming the unmodified opinion and hence was charged with failure to comply with SA 700.
	SA 700	Forming an Opinion and Reporting on Financial Statements"	Non-compliance with SA	EP argued that <i>The audit opinion issued by the Respondent, was with reference to the Trial Balance of the Branch, and not on the Financial Statements therefore</i> it did not constitute a report for the purpose of SA 700 According to Rule 12(1) of Company (Audit and Auditors) Rules 2014 for the audit of the branches of a company, the responsibility of auditor as provided in Section 143(1)- 143(4) are on the company's auditor and not on the branch auditor. Basis literature in SA 700 it

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				was concluded that SA 700 is applicable in this audit and as per the SA the EP is required to evaluate the effect of the misstatements and decide to appropriately modify the opinion. However, despite noting the absence of required information the EP did not document how this deficiency was immaterial and has not resulted in a misstatement. EP issued a "CERTIFICATE" stating "We also confirm following:- The required documents including the security documents have been properly obtained'. Nowhere in the audit file has it been documented how these deficiencies were resolved while reaching the conclusion that all documents were properly obtained by him and how its impact was considered in the audit opinion. In another case, in the Annexure to the audit report titled "BRANCH AUDITOR AUDIT OF BRANCH'S FINANCIAL INFORMATION SUMMARY MEMORANDUM - AS A WHOLE", has a specific requirement to certify whether the unadjusted misstatements are material or immaterial. However, under "Overall Evaluation of Misstatements" the EP neither certified that "The unadjusted misstatements are immaterial" nor that "The unadjusted misstatements are material". Irrespective of that, in the same annexure the EP certified that "the financial information gives a true and fair view". Thus, EP did not express any view as to the materiality of the misstatements.

Sr. No.	SA No. Ind AS No.	Reference of SA / Ind AS Para	Topic for Non Compliance	Explanations
				Despite this non-evaluation of misstatements, in the same annexure the EP certified that "the financial information gives a true and fair view.
	SA 300	Para 6, 7, 8, 9 & 10 of SA 300	Non-compliance with SA	EP failed in establishing an overall audit strategy and development of audit plan etc. in accordance with SA 300. The EP submitted an audit plan made for the year 2013-14 and stated that "...had a properly documented audit plan available in the audit file for previous years. Therefore documentation displaying an overall audit strategy and development of an audit plan for FY 2017-18 was felt not necessary, in view of the fact that it was not an audit of financial statements, and because there was room for the audit documentation to be adapted as necessary in the circumstances, as per SA 230". The replies were not acceptable since SA 300 requires the auditor to include in the audit plan the timing of the audit and to update and change the overall audit strategy and the audit plan as necessary during the course of the audit. The audit plan made in 2013-14 has not been updated to meet the requirements of the audit in 17-18. The EP's contentions that since the audit fee is low, the "Audit plan and strategy in such cases are not required to be complex that necessitate detailed documentation" and the audit plan is not required since the scope of work is "well defined" have no basis in the SAs.

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	SA 450, SA 500, SA 520, SA 530	Para 6 & 9 of SA 500, Para 6 of SA 520, Para 4, 6, 7, 8 & 9 of SA 530	Non-compliance with SA	a) In the absence of the evaluation of identified misstatements and uncorrected misstatements. The EP submits that there were no instances of identified misstatements and material misstatements and hence the SA 450 is not applicable. The reply of the EP is not acceptable in the absence of any documentation or conclusions in the audit file in this regard. b) Non compliance with SA 500 in not designing and performing audit procedures to obtain sufficient appropriate audit evidence and not evaluating the reliability of information produced by the company. The EP replied that "it is a matter o.f judgment for the auditor to design the audit procedure to obtain audit evidences" and stated that SA 500 is complied. The replies are not accepted since there is no evidence in the Audit File of designing and performing audit procedures, such as an audit plan, the substantive procedures performed and the conclusions drawn. c) Non-compliance with para 6 of SA 520 relating to the design and performance of analytical procedures. The EP submits that SA 520 is not

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				applicable since it is not a financial statement audit. The reply is not accepted. the SAs are applicable for the branch statutory audit also. d) Non-compliance with SA 530 relating to the determination of sample design, sample size and required audit procedures. The EP states that the "basis of selection of sample was defined in the appointment letter itself and the skills of judgment and competence of the auditor were applied to draw the required sample data. The audit sampling in this case had provided a reasonable basis for the respondent auditor to draw conclusions about the population from which the sample was selected" and hence the charges are denied. We find that the conditions in the appointment letter do not evidence basis for EP's work and conclusions. The SAs casts a responsibility on the auditor to design and perform audit procedures to obtain sufficient appropriate audit evidence on which to base the audit opinion. The terms dictated by the company cannot substitute this responsibility. There is no evidence that any of the sampling and the related procedures as detailed in SA 530 have been complied with by the EP, while the audit

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				opinion is based on sample testing. In the absence of any evidence to show compliance with the determination of sample design, sample size and audit procedures performed on it, the contentions of the EP were not accepted.
8	Women Next Loungeries Limited (WNLL)			
	SA 501	Para 7 of SA 501	Failure to obtain sufficient appropriate audit evidence regarding the existence and condition of inventory	EP failed to obtain sufficient appropriate audit evidence regarding the existence and condition of inventory by not being in attendance at the physical inventory counting and relying on management certificate for the inventory balance.
	SA 550	Para 18 of SA 550	Failure to evaluate the arm's length basis for transactions with related parties.	As per para 18 of SA 550 - Related Parties "In meeting the SA 315 requirement to identify and assess the risks of material misstatement the EP is required to identify and assess the risks of material misstatement associated with related party relationships and transactions and determine whether any of those risks are significant risks". Further, as per para 24 of SA 550, when management has made an assertion in the financial statements to the effect that a Related Party Transaction was conducted on terms equivalent to those prevailing in an arm's length transaction, the auditor shall obtain sufficient appropriate audit evidence about the assertion.

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				As there is no testing of the arm's length pricing in the Audit File and the reply of the EP did not specifically answer the charge in the SCN, we conclude that the EP did not comply with requirements of SA 550.
	SA 505	Para 12 of SA 505	Failure to obtain external confirmation for the Trade Receivables & Trade Payables	The EP failed to obtain direct confirmations of balances from debtors and creditors , and with failure to perform any alternative procedure in the absence of confirmation from debtors and creditors in accordance with Para 12 read with A18 and A19 of SA 505.
	AS 4 and SA 540	Para 6 of SA 540	Failure to report non-provisioning for doubtful debts	EP was charged with the failure to report non-provisioning for doubtful debts even though the company had disclosed 9 .17 crores of debts as doubtful and did not make any provision in the accounts for the doubtful debts as per para 4.2 of the AS 4. EP was also required to comply with para 6 of the SA 540, which states that the objective of the auditor is to obtain sufficient appropriate audit evidence whether in the context of the accounting estimates are reasonable and related disclosures in the financial statements are adequate.

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	SA 315	Para 3 & 8 of SA 300	Failure to Plan the audit and failure to understand the entity and its environment	No documentation is found in the Audit File submitted, in relation to Audit Planning and Audit Strategy for understanding the nature of the entity and its environment. Consequently, no basic understanding of the entity has been recorded in the Audit File. Also, as part of entity's risk assessment process the auditor is required as per para 15 of SA 315 to understand whether the entity has a process for identifying business risks relevant to financial reporting objectives, estimating significance of the risks, assessing likelihood of occurrence and deciding how to address those risk. There are no such papers in the audit file.
	SA 260 & SA 265	Para 11, 14, 15, 16 and 17 of SA 260	Failure to identify and communicate with Those Charged With Governance	The EP was charged with a failure to identify the TCWG as per Para 11 of SA 260 and also failure to communicate with the TCWG, as required under Para 14, 15, 16 & 17 of SA 260 & SA 265.
	SA 320, SA 220 and SA 500	Para 10 and 11 of SA 320 - Materiality SA 500 and SA 220	Failure to determine materiality and performance materiality and sampling methodology and appointment of EQCR	The documentation failed to demonstrate calculation of materiality as required by SA . The Audit File has no documentation regarding extent of verification of the transactions, and whether the entire population was verified, or any sampling methodology was applied for the verification of the transactions such as sales & purchases. The WNLL being a listed company, the auditor was required

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				to determine that EQCR had been appointed in terms of Para 19(a) of SA 220. The audit file failed to demonstrate the appointment of EQCR for FY 2017-18, which was in violation of SA 220.
9	Nicco Uco Alliance Credit Limited (NUACL)			
	AS 11		Incorrect reporting of outstanding liability arising out of Foreign Currency Loan resulting in non-compliance of AS 11	The foreign currency loan, which was material as per the balance sheet size, was not correctly translated at the closing rate and there are no circumstances justifying use of any rate other than the closing rate in the audit file.
	AS 19	Para 26 of AS 19	Incorrect accounting treatment of Assets given on Lease	As per Para 26 of AS 19, the lessor should recognize assets given under finance lease as a receivable in its Balance Sheet at an amount equal to the net investment in the lease; and of Schedule III of the Companies Act, 2013, which requires the Company to indicate the assets <u>taken</u> on finance lease and not assets <u>given</u> on finance lease under head Tangible Assets -Assets under lease. This has resulted in misleading and erroneous presentation of unpaid finance lease receivables as fixed assets because definition, recognition and measurement and disclosure requirements for fixed assets and lease receivables are completely different.

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	Schedule III of Companies Act 2013	Schedule III of Companies Act 2013	Not reporting non-compliance with the format of Financial Statements	a) Non-disclosure of breakup of Trade Receivables into outstanding amount of more than 6 months and less than 6 months, as required by Note 6P of 'General Instructions for preparation of Balance Sheet' given in Part 1 of the Division I, Schedule III to the Companies Act, 2013. b) Not reporting that the depreciation schedule does not mention the adjustments/additions/deductions in the Gross Block and depreciation for the previous year 2014-15, which was not in compliance with the requirements of Schedule III to the Companies Act, 2013.
			Errors in financial statements	a) In the Significant Accounting Policies, reference of the Companies Act, 1956 was given in the financial statements of the Company even though the Companies Act, 1956 had been repealed by then and Companies Act, 2013 was applicable in this case. b) The EP was charged with not reporting the mismatch in the investment schedule in the financial statements of the Company. c) The EP was charged with certifying two different values of Earning Per Share (Basic &

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				Diluted) in the same financial statements. In the Statement of Profit and Loss, the Earning (loss) Per Share (Basic & Diluted) is shown to be z (-)2.39, while in Note no. 2.30, the figure is given as z(-)1.16. There was no evidence for the calculation of the correct figure for EPS in the Audit file submitted earlier by the EP. This is in non-compliance with SA 450. d) In the Financial Statements for 2015-16, Note no. 2.3(viii) is followed by Note no. 2.3(xii) in both the printed and signed copy of the Financial Statements.
	SA 320	Para 10 and 11 of SA 320 - Materiality	Non-compliance with SA	The documentation failed to demonstrate calculation of materiality as required by SA. There was no work paper in the Audit file regarding materiality.
10	Lexus Granito India Ltd (LGIL)			59/2023, Date 4.10.2023
	SA 315, SA 501, AS 2, SA 230, SA 200		Inventory Valuation and Physical Verification	NFRA observed that although the Inventory constituted more than half of the current assets and therefore was material, the Lexus Granito India Ltd (LGIL) had, during FYs 2018-19 and 2019-20, adopted a flawed accounting policy to account for the finished goods at the estimated market price (and not at Lower of Cost or Net Realisable Value), therefore not complying with the

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				provision of AS 2. The Auditors merely reported such material non-compliances through Key Audit Matters ('KAM' hereafter) in the FY 2019-20. The Auditors also failed to attend the physical count of inventory, which was required by the Standards.
	AS 29		Writing-back of Liabilities	NFRA's investigation found that LGIL had unilaterally written back substantial amounts of its liabilities and treated them as Other Income, which resulted in overstatement of profits by 2.31 crore (21% of the reported figures) in 2017-18 and understatement of losses by 5.89 crore (1123%) in 2018-19 and 0.15 crore (283%) in 2019-20.
	SA 705		Inappropriate Audit Opinion	The Auditors were charged with issuing of unmodified opinion despite the presence of material misstatements, in the FS for the FYs 2017-18 to 2019-20.
	SA 701		Key Audit Matters	NFRA observed that despite the presence of material and pervasive misstatements, the Auditors did not consider a modified opinion as per SA 705 for the FYs 2017-18 to 2019-20, rather they reported these matters through KAM in the FYs 2018-19 and 2019-20, which was not in compliance with SA 701. Further it was observed by NFRA that the Auditors reported matters through KAM without recording any rationale for inclusion of such matters in KAM and without communicating these

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				matters to Those Charged with Governance ('TCWG', hereafter). There were also differences in the KAMs as documented in the Audit File and as included in the Annual Report submitted to National Stock Exchange ('NSE' hereafter).
	SA 550		Related party Transaction	The Auditors failed to obtain sufficient appropriate audit evidence for the audit of related party transactions of the company. Approximately 44% of the Initial Public Offer ('IPO' hereafter) proceeds were paid to one of its related parties, however, no sufficient appropriate documentation of audit procedures for verification of utilisation of IPO proceeds was found in the Audit File, except for a list of payments out of IPO proceeds.
11	Sobha Ltd			58/2023, Date 29.09.2023
	SA 540, SA 315, SA 200	Para 6 & 9 of SA 540, Para 7 read with para A23 of SA 200	Failure to report non-provisioning of land advances	NFRA finds that the Engagement Partner (EP) did not comply with the provisions of SA 540 (Para 6 & 9), SA 2002 (Para 7 read with Para A23) and SA 315 as he failed to report on the uncertainty about recovery of unsecured land advances amounting to Rs. 1843.13 crore, with no Marketable title to the land and some of which also being under litigation. The EP FAILED to report this matter even after identifying the weakness in the INTERNAL controls over the advances for which no ageing schedule was maintained, no monitoring was carried out and no confirmations were obtained by the

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				Company. The auditor had also not reported non-provisioning against the amounts due from certain individuals and the security deposits given to certain other individuals and did not obtain sufficient appropriate audit evidence in respect of these transactions, even though the EP was aware that the transactions were being enquired into by SEBI. Further, the EP did not comment, in its Independent Auditor's Report for FY 2018-19, on the issues raised by SEBI either through qualification or through Emphasis of Matter.

Financial Reporting Quality Review

Sr. No.	SA No. Ind AS No.	Name of SA and Reference of SA Para	Topic for Non Compliance	Explanations
1	KIOCL Ltd			NF-20011/47/2021 dated 28.09.2021
	IND AS 115	Revenue Recognition	Significant Accounting Policies Note 1.6 Revenue Recognition	NFRA observes that the accounting policy stated in respect of a material element of financial statement i.e., Revenue (with corresponding impact on related assets) is erroneously stated in its significant accounting policy. Based on the KIOCL's response actual accounting is different from what is stated in the audited financial statements in many important aspects of recognition and measurement of revenue which has impact on the amount of and timing of revenue recognition by the Company. This kind of erroneous disclosure of accounting policy raises questions over the reliability of the financial statements of the Company. Therefore, KIOCL is advised to undertake a comprehensive review of the accounting principles actually followed for the financial year 2019-20 vis-a-vis the requirements of applicable Ind ASs and revise and restate its financial statements for the financial year after complying with the provisions of section 131 of the Companies Act, 2013 and Ind AS 8.

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				Paragraph 5.4.1 of Ind AS 109 states that interest revenue shall be calculated by using the effective interest rate method however KIOCL has the policy of recognition of interest on “accrual basis subject to certainty of realization” which is inconsistent with the recognition requirement of Paragraph 5.4.1 of Ind AS 109. Thus, KIOCL has not complied with the Paragraph 5.4.1 of Ind AS 109.
	Ind AS 109	Financial Instrument	Significant Accounting Policies Note 1.14 Impairment of Financial Assets	KIOCL assumption that the trade receivables backed by Bank's Letters of Credit is inappropriate. Secondly, KIOCL has reported substantial amount (₹ 3,514.03 lakh) of its total trade receivables as unsecured. Therefore, KIOCL should have assessed the credit risk in a holistic manner including consideration of forecast future conditions. It should be noted that the paragraph B5.5.35 of Ind AS 109, which permits use of practical expedient to apply provision matrix based on past due period, requires adjustment of historical loss factors for changes in the current and future forecast conditions. Accordingly, KIOCL is advised to reassess its impairment loss allowance for the financial year 2019-20 keeping in mind the underlying principles of ECL approach of Ind AS 109. KIOCL has also not complied with credit risk exposure disclosure of paragraph 35 of Ind AS 107 which requires disclosure of gross carrying amounts based on provision matrix used by the entity.

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	IND AS 2	Para 36(g) of Inventories	Significant Estimates	NFRA observes that the KIOCL has done reversal of Inventories (Manganese ore) during the year as mentioned in negative figure in Note 24.13 ₹ 0.94 lakh FY 2019-20 (₹ 21.31 lakh FY 2018-19). In this respect, disclosure requirement of Paragraph 36 (g) of Indian Accounting Standard (Ind AS) 2, Inventories (Ind AS 2) states that: The financial statements shall disclose: the circumstances or events that led to the reversal of a write-down of inventories in accordance with paragraph 34". NFRA observes that KIOCL has not complied with Paragraph 36(g) of Ind AS 2.
	IND AS 36	Impairment of Assets	Other notes forming part of FS : Impairment of assets	NFRA has examined the response of KIOCL and observes that it has not provided any suitable and adequate evidence such as valuation done by management expert to support the contention that there the recoverable amount of each class of assets is more than carrying amount and therefore no impairment loss is expected. Paragraph 9 of Indian Accounting Standard (Ind AS) 36, Impairment of Assets (Ind AS 36) states that: "An entity shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset." Further no supporting documents provided by KIOCL for observations above. Therefore,

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				NFRA concludes that KIOCL has not complied with the requirement of Paragraph 9 & 132 of Ind AS 36 and have not disclosed the information requirement to be presented which helps to take decision by the users of the financial statement.
	IND AS 109	Financial Instruments	Other notes forming part of FS : Financial Risk management	KIOCL's accounting policy for Fx Forward Contracts is erroneous and it is in non-compliance with the classification and measurement requirements of Ind AS 109. As of Balance Sheet Date, outstanding amount of Fx Forward Contracts were ₹ 8,382.03 lakh and as ₹ 4,834.55 lakh as of March 31, 2020 & March 31, 2019, respectively and the KIOCL does not apply Hedge Accounting for these contracts. Fx Forward Contracts meet the definition of Derivative (Refer Appendix A to Ind AS 109) and are therefore, within the scope of recognition and measurement requirements of Ind AS 109. These financial instruments have to be classified as Fair Value through Profit or Loss (FVTPL) and outstanding Fx Forward Contracts shall be measured at fair value with unrealised gain or loss to be recognised in the Statement of Profit and Loss with corresponding recognised as financial asset or financial liability at each Balance Sheet Date. Fx Forward Contracts are Derivative instruments and do not meet the contractual cash flow characteristics conditions in paragraphs 4.1.2(b) and 4.1.2A(b) of Ind AS 109 and cannot be

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				subsequently measured at amortised cost or fair value through other comprehensive income. Therefore, Fx Forward Contracts have to be classified and subsequently measured as Fair Value through Profit or Loss (FVTPL), unless those are part of hedging relationship. According to paragraph 5.7.1 of Ind AS 109, a gain or loss on financial asset or financial liability measured at fair value shall be recognised in profit or loss unless it is part of a hedging relationship. Therefore, KIOCL should initiate actions to rectify the erroneous accounting policy applied to Fx Forward Contracts in the financial year 2019-20 and 2018-19 and also consider the requirements of paragraphs 41 & 42 of Ind AS 8, Accounting Policies, Changes in Accounting Estimates and Errors.
	IND AS 109	Financial Instruments	Other notes forming part of FS : Financial Risk management	Following assumption and approach of KIOCL's regarding credit risk assessment for recognising and measuring the impairment loss under ECL concept of Ind AS 109 is erroneous and it is not in compliance with the underlying principles and concepts of Ind AS 109. (a) Credit risk is assumed to be negligible based on past experience (b) Credit risk is assumed to be negligible as the exposure is supported by LCs of reputed International/Scheduled Banks.

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				According to paragraph 5.5.17 of Ind AS 109, an entity shall measure expected credit losses of a financial instrument in a way that reflects: (a) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; (b) the time value of money; and (c) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. (Emphasis Added) Further paragraph B5.5.52 of Ind AS 109 states as follows Historical information is an important anchor or base from which to measure expected credit losses. However, an entity shall adjust historical data, such as credit loss experience, on the basis of current observable data to reflect the effects of the current conditions and its forecasts of future conditions that did not affect the period on which the historical data is based, and to remove the effects of the conditions in the historical period that are not relevant to the future contractual cash flows. (Emphasis Added).

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				Further, paragraph B5,5.16 of Ind AS 109 states that Credit risk analysis is a multifactor and holistic analysis. In view of the explicit requirements of Ind AS 109 to consider the forecast future conditions in the recognition and measurement of impairment loss allowances, and not just consider historical loss experience, and the fact that the Banks and Financial Institutions are also subject to possibility of defaulting on their obligations, there is a need to assess the credit risk in holistic manner as required by the prescriptions of Ind AS 109. Therefore, KIOCL is advised to reassess the impairment loss allowance for the financial year 2019-20 in a holistic manner and taking into account various factors including future forecast conditions and shall consider the engagement of credit risk experts for this purpose.
	IND AS 107	Financial Instruments : Disclosures	Other notes forming part of FS : Financial Risk management	Following disclosures of KIOCL regarding fair value measurement disclosures are erroneous and misleading to the users of the financial statements. (a) Management considers that the carrying amount of those financial assets and financial liabilities that are not subsequently measured at fair value, in the Financial Statements are approximate to their fair values.

Sr. No.	SA No. Ind AS No.	Name of SA and Reference of SA Para	Topic for Non Compliance	Explanations
				(b) The carrying amounts of capital creditors are considered to be the same as their fair values. Paragraph 29 of Ind AS 107 quoted by KIOCL in support of its disclosure does not support the above assertions and bases for determining the fair value. Disclosures of fair value are not required: (a) when the carrying amount is a reasonable approximation of fair value, for example, for financial instruments such as short-term trade receivables and payables; (b) for a contract containing a discretionary participation feature (as described in Ind AS 104) if the fair value of that feature cannot be measured reliably; or c) for lease liabilities." KIOCL is advised to review and correct the incorrect disclosures in its financial statements regarding description and bases of fair value measurement.

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2	PSP Projects Limited			NF- 20011/51/2021 dated 23.02.2023
	Ind AS 109	Para 5.1.1 of Ind AS 109, Para 5.1.3 of Ind AS 109,	Initial measurement policy for Trade Receivables	The NFRA observed a discrepancy in the accounting policy of the company regarding the initial measurement of financial assets, particularly trade receivables, as detailed in Note 2.12 of the Annual Report. The company stated that all financial assets are initially recognized at fair value, which contradicts the requirements outlined in Ind AS 109, specifically Para 5.1.1 and Para 5.1.3. Para 5.1.1 of Ind AS 109 stipulates that financial assets should be measured at fair value plus or minus transaction costs directly attributable to their acquisition or issue. However, Para 5.1.3 provides an exception for trade receivables, which are to be measured at their transaction price, not fair value, if they do not contain a significant financing component. In response, the company argued that Note 2.12 describes the expected lifetime losses to be recognized from the initial recognition of receivables and that they use historical default rates to determine impairment loss. However, the NFRA maintained that the initial measurement policy for trade receivables must adhere to the requirements of Ind AS 109, which mandates measuring them at transaction price, not fair value. Additionally, the NFRA noted the company's disclosure regarding revenue recognition in Note 2.15, which further highlighted the

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				discrepancy in initial measurement practices. The company's assurance to correct the error in disclosure in the financial statements was acknowledged by the NFRA. In conclusion, the NFRA directed the company to rectify the initial measurement policy for trade receivables in accordance with the requirements of Ind AS 109.
	Ind AS 109	Para 5.1.1 of Ind AS 109, Para 5.1.4 of Ind AS 109, Para 5.1.5 of Ind AS 109, Para 5.1.7 of Ind AS 109	Non-provision of the Impairment loss allowance in respect of Financial Assets and Contract Assets	The NFRA noted a lack of impairment loss allowance, as required by Ind AS 109, against both Financial Assets and Contract Assets held by the company. Here are the key observations and directives provided by the NFRA: Financial Assets: Expected Credit Loss (ECL) Requirements: The NFRA highlighted the requirements of Ind AS 109 regarding the recognition and measurement of Expected Credit Loss (ECL) for financial assets. Company's Accounting Policy: The company's accounting policy for impairment of financial assets stated the use of the ECL model, but discrepancies were identified in the application of this model. Specific Cases Examined: The NFRA examined specific financial assets, including deposits with banks, security deposits, bank balances, and other deposits, and found that the company's approach to impairment recognition did not fully comply with Ind AS 109.

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				Credit Risk Assessment: The NFRA emphasized that the company's assertion of reduced credit risk due to a diversified portfolio of investments was not entirely aligned with the principles of ECL approach. Directive for Compliance: The NFRA directed the company to review its policy and provide for ECL in accordance with Ind AS 109, particularly emphasizing the need for proper assessment and provisioning against balances due from banks. Contract Assets: Impairment Assessment: The NFRA highlighted that contract assets should be assessed for impairment in accordance with Ind AS 109, but no impairment loss allowance had been recognized or measured by applying the ECL method. Company's Explanation: The company explained that unbilled revenue (contract assets) and retention money would eventually be converted into trade receivables upon the achievement of milestones, and the ECL would be applied at that stage. Non-compliance Directive: The NFRA pointed out that the company's policy of applying ECL only when contract assets are converted into trade receivables was erroneous and not in compliance with the provisions of Ind AS 115 and Ind AS 109.

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				Compliance Directive: The NFRA directed the company to comply with the requirements of Ind AS 109, emphasizing the mandatory nature of these provisions. In summary, the NFRA highlighted discrepancies in the company's impairment recognition practices for both financial assets and contract assets and directed the company to ensure compliance with the relevant provisions of Ind AS 109.
	Ind AS 107		Inadequate disclosure regarding Credit Risk Exposure	The NFRA observed that the company's disclosures regarding its credit risk exposure did not comply with Para 35M and Para 35N of Ind AS 107. The company failed to provide information on impairment loss allowance based on the provision matrix used for computing impairment loss allowance for Trade Receivables and based on credit risk grades used for other Financial Assets. Here are the key observations and directives provided by the NFRA: 1. Disclosure Requirements: The NFRA emphasized the disclosure requirements outlined in Para 35M and Para 35N of Ind AS 107, which mandate disclosures by credit risk rating grades for financial assets and exposure to credit risk on loan commitments and financial guarantee contracts. 2. Company's Disclosure: The company's Note 36 on Financial Risk Management

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				did not provide the required disclosures according to Para 35M and Para 35N of Ind AS 107. While the company disclosed the movement in Expected Credit Loss allowance and described its credit risk management practices, it did not fulfill the specific disclosure requirements. 3. Clarification on Requirements: The NFRA directed the company to refer to the Ind AS Implementation Guidance and Example 12-Provision Matrix of Illustrative Examples of IFRS 9 Financial Instruments to understand the required disclosures for credit risk exposure and impairment loss allowance. 4. Company's Response: The company stated its understanding that Para 35M and Para 35N applied only to entities engaged in the financial sector and argued that its financial assets were not individually credit-rated by rating agencies. However, this understanding was deemed incorrect by the NFRA. 5. Discussion Clarifications: During the in-person discussion, it was clarified that the disclosure requirements should be based on the company's approach, not

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				solely on credit ratings from rating agencies. The absence of disclosures by other companies was not considered a valid reason for non-compliance. 6. Conclusion: The NFRA concluded that the company had not complied with the disclosure requirements as explained in the Ind AS guidance and provided illustrative examples. The company's understanding that the requirements applied only to financial instruments with specific credit ratings was deemed incorrect. In summary, the NFRA highlighted the company's failure to comply with disclosure requirements related to credit risk exposure and impairment loss allowance and directed the company to rectify this non-compliance.
			Non-disclosures regarding Related Party Loans	The company disclosed loans totaling ₹ 3,942.63 lakhs to related parties, with ₹ 2,751.59 lakhs classified as non-current and ₹ 1,163.44 lakhs classified as current. However, the full particulars of these loans, including the rate of interest, repayment terms, due date, collateral, etc., were not disclosed in the Financial Statements, as required by Section 186(4) of the Companies Act 2013 and Schedule III of the Companies Act, 2013. The company

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				acknowledged this oversight and mentioned that they disclosed the transactions conducted during the year, year-end balances related to loans and guarantees provided to related parties, and interest income recognized under Note No. 37 pertaining to related party transactions. However, they did not specifically reference Section 186(4) of the Companies Act, 2013. The company committed to enhancing their disclosure to be more specific about the requirements of Section 186(4) of the Companies Act, 2013. During the in-person discussion, the company assured that it had taken note of NFRA's observation and had improved the disclosures in the Financial Statements from 2021-22 in line with the Companies Act, 2013, and Schedule III. Moving forward, the company was directed to disclose the loan tenure and any collateral provided, if applicable, to ensure comprehensive and compliant disclosure practices.
	Ind AS 115	Para 129 of Ind AS 115	Non-disclosure of the general terms of payment of Trade Receivables and Contract Assets	The company disclosed ₹ 22,400 lakhs as Trade Receivables in Note 12, constituting a significant portion (23.35% of PSP Projects Ltd.'s total assets as of 31.03.2020). However, the company did not disclose the general terms of payment (e.g., 30 to 90 days) or whether these Trade Receivables included a significant financing component, as required by Ind AS 115. In response, the company referred to para 60 and 63 of Ind AS 115 regarding

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				significant financing components and stated that they had disclosed in Note 2.15 of the Financial Statements that payment terms agreed with customers are as per business practice, and any significant financing component would be separated from the transaction price and accounted for as interest income. Additionally, they mentioned that contract terms vary for each client, so they did not provide generalized terms in the notes. NFRA observed that the company's disclosure about payment terms being as per business practice was vague and lacked critical information useful for assessing the entity's ability to generate cash and cash equivalents. Furthermore, the lack of details on Trade Receivables due for payment in less than a year did not justify the application of Para 63 of Ind AS 115. Although the company stated that there were no contract terms with significant financing components, it did not disclose how it assessed this fact or whether it applied the practical expedient clause in Para 63 of Ind AS 115. Para 129 of Ind AS 115 requires disclosure if an entity elects to use the practical expedient in Para 63, but the company did not make this disclosure. Consequently, NFRA concluded that PSP Projects Ltd. did not adequately comply with the disclosure requirements of Ind AS 115. During the in-person discussion, NFRA emphasized that disclosure requirements under Para 119 of

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				Ind AS 115 are mandatory to enhance the quality of disclosures for better understanding by users of the Financial Statements. Therefore, the company was directed to comply with these requirements.
	IND AS 115	Para 114 of Ind AS 115	Non-fulfilment of disclosure requirements in respect of disaggregation of revenue from contracts	The Company's disclosure in Note 39 regarding the disaggregation of revenue from contracts with customers only by geographical area does not comply with the requirements of Para 114 of Ind AS 115. This paragraph requires revenue to be disaggregated into categories reflecting how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors. Para B89 of Ind AS 115 provides guidance on disaggregating revenue based on various criteria, including type of good or service, geographical region, market or type of customer, type of contract, contract duration, timing of transfer of goods or services, and sales channels. In response, the Company stated that their disclosures referred to the timing of revenue recognition, mentioning whether revenue recognition occurred over time or at a point in time. However, NFRA observed that the Company's operations spanned various sectors and involved providing services across the construction value chain, including planning, design, construction, post-construction activities, and other interior fit-outs. These services represent separate

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				business lines, and hence disaggregation by type of good or service was necessary but not provided. Additionally, the Company serves different categories of customers, making disaggregation of revenue based on customer types essential. Despite the Company's explanation that its operations are limited to a single business line and that revenue characteristics are similar across various contracts, NFRA directed the Company to consider disaggregating revenue based on market or type of customer, type of contract, and contract duration. During the in-person discussion, NFRA emphasized the importance of understanding the underlying principle of disclosure and considering disaggregation based on various criteria, as illustrated in the relevant Ind AS Implementation Guidance examples.
	Ind AS 107 and Ind AS 113	Para 25 of Ind AS 107, Para 91 of Ind AS 113, Para 93 of Ind AS 113, Para 29 of Ind AS 107	Non-Compliance with the disclosure requirement of Fair Value Measurement hierarchy	The Company's disclosure regarding the measurement bases of the carrying amounts of Financial Instruments in Note 34 of the Financial Statements lacks quantitative information about the Fair Value of each of the three hierarchies (Level 1, Level 2, and Level 3). This deficiency is not in compliance with the requirements outlined in Para 25 of Ind AS 107 and Paras 91 and 93 of Ind AS 113. Para 25 of Ind AS 107 stipulates that an entity must disclose the fair value of each class of assets and liabilities in a way that permits comparison with its carrying amount.

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				Additionally, Paras 91 and 93 of Ind AS 113 require disclosure of valuation techniques, inputs, and the level of the fair value hierarchy within which the fair value measurements are categorized. In response, the Company referred to its measurement criteria and stated that since all financial assets and liabilities are measured at amortized cost, the carrying amount reflects the fair value. However, NFRA disagreed with this assertion, highlighting that the definitions of amortized cost and fair value in Ind AS 109 and Ind AS 113 respectively contradict this claim. NFRA concluded that the Company's response did not align with the requirements of Ind AS 107 and directed the Company to review its disclosure practices comprehensively to ensure compliance with the aforementioned standards.
	Ind AS 116	Para 22 of Ind AS 116	Inadequate disclosure regarding Lease Rental Expenses	NFRA observed that in Note 30, the Company disclosed Rent Expense without specifying whether it had applied the practical expedient for accounting short-term leases, as per Para 6 of Ind AS 116. This expedient allows entities to recognize lease payments as expenses rather than recognizing the lease transaction as a right-of-use asset with a corresponding lease liability, as mandated by Para 22 of Ind AS 116. The Company acknowledged this oversight and committed to enhancing its disclosure practices to align with the requirements of Ind AS 116 in the future. Specifically, they stated their intention to explicitly mention their election for

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				exemption for short-term leases in their disclosures, thereby addressing NFRA's concern.
	Ind AS 1, Ind AS 8	Paragraph 41 of Ind AS 1, Paragraph 42 of Ind AS 8	Disclosures of regroupings/ re-classifications	It appears that the Company's response to the disclosure requirements of Paragraph 41 of Ind AS 1 lacks sufficient detail and clarity. While the Company asserts that no reclassification or regroupings were made in the Balance Sheet and Statement of Profit and Loss, it fails to provide specific details or explanations regarding the nature of any regroupings or reclassifications that may have occurred. NFRA's observation rightly points out the absence of such details, which are essential for users of the Financial Statements to understand any changes in presentation or classification. Furthermore, it raises valid concerns regarding whether any reclassifications were due to correction of prior period errors as defined in Ind AS 8, and if so, whether restatement of amounts was necessary as required by Paragraph 42 of Ind AS 8. The Company's plan to review the relevance and requirement of this disclosure for future annual reports is a positive step. However, it's important for them to ensure that their disclosures comply with the relevant accounting standards, providing clear and transparent information to stakeholders. They should consider providing more specific details regarding any reclassifications or regroupings, including the nature, amount, and reason for such changes, to enhance

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				the transparency and clarity of their financial reporting.
	Ind AS 10	Paragraph 17 of Ind AS 10	Non-disclosure regarding shareholders' powers to amend the Financial Statements	The Company's response regarding the disclosure requirements of Paragraph 17 of Ind AS 10 raises some valid points but may still fall short of full compliance with the standard. While it's true that the Financial Statements were approved for issue by the Audit Committee and Board of Directors, and this approval is disclosed in Note No. 45 of the Financial Statements, the Company's argument that no separate disclosure is needed regarding the shareholders' power to amend the Financial Statements might not fully address the requirements of Ind AS 10. Ind AS 10 specifically mandates the disclosure of whether the entity's owners or others have the power to amend the financial statements after issue. While it's acknowledged that the Companies Act grants certain powers to shareholders, including the ability to revise financial statements, providing explicit disclosure regarding this power ensures transparency and clarity for users of the financial statements. Therefore, the Company should consider providing additional disclosure explicitly stating whether shareholders or others have the power to amend the financial statements after issue, in line with the requirements of Ind AS 10. This would help ensure full compliance and enhance transparency in financial reporting.

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3	Prabhu Steel Industries Limited (PSIL)			Order No. 20012/1/2022
	Ind AS 1, Schedule III and Companies Act 2013	Presentation of Financial Statements and Schedule III to the Companies Act, 2013.	Failure to report non-compliance with applicable financial reporting framework and lack of consideration of laws & regulations during the audit	The prominent violations by PSIL are: a) Company is a Listed Company and therefore, according to the Companies (Indian Accounting Standards) Rules 2015 it is required to follow the Indian Accounting Standards notified under the Companies (Indian Accounting Standards) Rules 2015. However, the Directors' Report states the Company has followed Accounting Standards (AS) issued by ICAI whereas the Notes to Annual Accounts state the Financial Statements are prepared in compliance with the Indian Accounting Standards notified under Section 133 of the Companies Act, 2013. The disclosures at several places are made in accordance with the AS which Framework is no longer applicable to the Company. b) The Company failed to present a Statement of Changes in Equity in the Financial Statements as required by Ind AS 1 and Schedule III to the Companies Act, 2013. c) The Company also failed to prepare Consolidated Financial Statements as required by Section 129(3) of the Companies Act, 2013 though it has disclosed

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				certain companies as Associate Companies in the Financial Statements.
	Ind AS 109, Ind AS 7, Ind AS 107, Ind AS 113, Ind AS 16, Schedule III	Financial Instruments, Paragraphs 45, 46 and 48 of Ind AS 7, Statement of Cash Flows Ind AS 107 - Financial Instruments : Disclosures Ind AS 113 - Fair Value Measurement Ind AS 16 - Property, Plant and Equipment	Failure to report non-compliance with applicable financial reporting framework and lack of consideration of laws & regulations during the audit	a) The Company has not done a proper evaluation of impairment loss allowance for these Financial Assets. b) Disclosures as required by Paragraphs 45, 46 and 48 of Ind AS 7, Statement of Cash Flows, have not been made by the Company. c) Disclosures prescribed by Ind AS 107, Financial Instruments: Disclosures, have not been made by the Company. d) Disclosures relating to fair value measurement prescribed by Ind AS 113 have not been made by the Company. e) PSIL's Annual Financial Statements do not comply with the statutory disclosure requirements specified in Division II of Schedule III to the Companies Act, 2013 in respect of the Financial Assets reported in the form of loans and advances. f) The Company has violated Ind AS 16 by not providing for required depreciation on plant and machinery. Apart from the above, the Company has made violations of the Companies Act, 2013 and applicable Ind AS provisions in almost all the areas of accounting.

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	SA 200, SA 210, SA 250, SA 700	Para 3 of SA 200- Overall Objectives of the Independent Auditor and the Conduct of an Audit Para 6 of SA 210 - Agreeing the Terms of Audit Engagements, Para 13 & 14 of SA 250- Consideration' of Laws and Regulations in an Audit of Financial Statements, Para 12, 13, 14, 15 & 16 of SA 700 - Forming an Opinion and Reporting on Financial Statements	Failure to report non-compliance with applicable financial reporting framework and lack of consideration of laws & regulations during the audit	It was the duty of the Auditor to comply with the provisions of SA 200 and SA 210 regarding the acceptability of applicable financial reporting framework and compliance with the same, SA 250 regarding compliance with Laws and Regulations and SA 700 regarding expressing his opinion on the true and fair view of Financial Statements. Notwithstanding these non-compliances, the CA in his audit report falsely states that the audit is conducted in accordance with the SAs.
4	ISGEC Heavy Eng Limited			Report No: NF- 20011/12/2021
	Ind AS 109		Deficiencies relating to Impairment Loss with reference to Financial Instruments	NFRA observes deficiencies in implementing the provisions of Ind AS 109 Financial Instruments relating to impairment loss allowance (provisioning) for some of the financial assets viz. Trade Receivables and other financial assets. The company did not evaluate impairment loss allowance on 'Unbilled Revenue1' (under Other Current Asset) despite it being a contract asset2 for which the

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				company was required to evaluate impairment loss in accordance with the requirements of Ind AS 109.
	Ind AS 19	Para 135 of Ind AS 19	Lack of Proper Discloser with reference to employee benefit	The Company did not make the required disclosure for Employee Benefits-Pensions in accordance with Para 135 of Ind AS 19 regarding defined contribution plans. The note provided by the Company lacks clarity on whether the employee benefit of Pension is a defined benefit plan or a defined contribution plan. Such disclosure is important to enable the users of financial statements to understand the characteristics of the benefit plans, the consequential liabilities of the Company and the risks associated with them.
	Ind AS 109	Para 4.2.1 of Ind AS 109	Failure to properly account Financial Guarantee	ISGEC has given corporate guarantees to the banks to secure the credit facilities granted by the banks to three of its subsidiaries. These corporate guarantees should have been accounted for as financial guarantees in accordance with Para 4.2.1 of Ind AS 109. But the Company has not done the same, resulting in non-compliance with the requirements of Ind AS 109.
	Ind AS 103		Failure to make proper discloser with regards to overseas Acquisition	ISGEC acquired another overseas company through one of its wholly owned subsidiaries during the year but did not disclose this transaction in the consolidated financial statements of ISGEC in accordance with the requirements of Ind AS 103 Business Combinations. The Company has not made adequate disclosures in this regard.

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	Ind AS 109		Failure to Evaluate Impairment loss	The overseas company so acquired was in distress due to financial difficulties, but ISGEC did not evaluate impairment loss on its investment value in its subsidiary in accordance with Ind AS 109. Though the amount involved is not material, this shows weakness in the internal controls with respect to impairment evaluation by the company. Also, ISGEC has earlier provided a loan to the same wholly owned subsidiary but did not evaluate the increase in credit risk on this loan as per the requirements of Ind AS 109.
	Ind AS 115		Failure to give disclouser as per Ind AS 115	NFRA has observed that certain information regarding 'significant payment terms' (e.g. when a payment is due) as required by Ind AS 115 Revenue from contracts with customers is not disclosed in the notes to the financial statement of the Company. Also, disclosure regarding 'obligations for returns, refunds, and other similar obligations has not been made by the Company. This disclosure is mandatory as per Ind AS 115. According to Ind AS 115 Revenue from contracts with customers, an entity is required to disclose its method used to recognize revenue and why this method provides a faithful depiction of transfer of goods and services. The company's disclosures fall short of the above requirement insofar as the explanations why the method used provides a faithful depiction of the transfer of goods and services is concerned.

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	Ind AS 1		Failure to give disclouser as per Ind AS 1	The Company has not clarified in the financial statements regarding the bifurcation of leave encashment into long-term and short-term. Ind AS 1 specifically requires the companies to inform the users of financial statements of the measurement basis used while categorizing a line item as short term or long term. The Company has not disclosed the nature of the balance sheet item "Others" under Other Non- Current Assets as required by Schedule III of the Companies Act.
	Ind AS 20		Failure to give disclouser as per Ind AS 20	The Company has taken a loan under a government scheme in which a part of the interest shall be borne by the government in the form of interest subvention. Ind AS 20 Government Grants specifically requires certain disclosures but ISGEC has not complied with these disclosures

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1	Jaiprakash Associates Limited			File No. NF-20011/9/2019-O/O
	SA 705	Para 8 of SA 705	False and misleading reporting	NFRA found that the Audit Firm's reporting in the "Basis of opinion" section of Independent Auditors Report is false and misleading. The impact of the transactions violative of accounting and auditing standards, as identified in this AQRR are such that the profit before tax of Rs. 351.71 crores, as reported in the financial statements, would have turned into a loss of at least Rs. 3,215.77 crores. This impact is both material and pervasive. As a result, the Audit Firm was bound, under the SAs, to issue an adverse opinion (Para 8 of SA 705).
	SA 706		Extensive use of EOM para reducing its effectiveness	The Audit Firm compromised with the effectiveness of the auditor's report by widespread use of Emphasis of Matter (EOM) Paragraphs. The Audit Firm has provided eight EOMs in the financial statements of FY 2017-18. Para A3 of SA 706 states that widespread use of Emphasis of Matter Paragraphs diminishes the effectiveness of the auditor's communication of such matters. Further, the Audit Firm failed to obtain sufficient appropriate audit evidence for providing these EOMs that was required as per SA 706.

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			Failure to access Risk of Material Misstatement (ROMM)	It was observed that the audit firm did not satisfactory rebut the presumption of ROMM due to fraud in respect of revenue recognition and management override of controls. This ultimately resulted in several violations of applicable provisions of Ind AS and SAs. Further, the Audit Firm had not identified and assessed ROMM through understanding the entity and its environment, including the entity's internal control. There were no ROMM procedures performed by the Audit at the assertion level. The Audit Firm has failed to perform the audit with professional skepticism and has failed to obtain sufficient appropriate audit evidence to reduce ROMM to an acceptably low level.
	Ind AS 36, Ind AS 28		Valuation of Investment	JAL's financial exposure in its subsidiaries, associates and joint ventures amounting to Rs. 6,894.02 crore was not properly valued as per the applicable Accounting Standards. The Audit Firm failed to obtain sufficient appropriate evidence on correct valuation of JAL's investment in these entities.
	Ind AS 105			The Company's accounting treatment for Non-Current Assets held for sale was not in accordance with the accounting standards, which led to a huge misstatement in the financial statements. The Audit firm also failed to obtain sufficient appropriate audit evidence in this regard.

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	SA 230		Failure to maintain Audit Documentation	The Audit Firm has failed to maintain audit documents as per the requirements of SA 230. The integrity and reliability of the Audit File is questionable due to inconsistencies arising out of such lack of documentation.
2	Infrastructure Leasing & Financial Services Limited (ILFS)			
	IND AS 109	IND AS 109 - Financial Instruments	Lapses in Audit of Investments	The audit of investments at IL&FS, valued at ₹ 12,320 Crore, highlighted pervasive shortcomings under IND AS 109. The audit firm failed to verify investments adequately in 80% of cases, omitted crucial use of valuation experts, and improperly evaluated impairment losses. A staggering ₹ 1,637 Crore lacked verification evidence, and management neglected to individually assess each investment for impairment, flouting IND AS 109's rigorous standards. These oversights, including ignoring clear impairment indicators such as insolvency and declining market values, led to inflated profits reported in the financial statements, undermining the standard's core principles of accurate financial reporting and transparency.
	SA 550	Related Party Transactions	Lapses in Audit of Loans and Advances	The audit of loans and advances at IL&FS, amounting to ₹ 8,124 Crore disbursed to 26 related parties, exposed serious non-compliance with SA 550. The audit firm violated Section 177 of the Companies Act, 2013, governing related party

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				transactions, and failed to mitigate risks associated with management override, evergreening, and loan rollovers. Furthermore, the audit documentation was found inadequate, lacking sufficient evidence of procedures performed, thereby compromising the reliability and integrity of the audit process as mandated by SA 550.
			Lapses in Audit of Revenue from Operations	Revenue from related parties accounted for 93% of IL&FS's total revenue, amounting to ₹ 1,899 Crore, yet the audit firm fell short of compliance with SA 550. Violations of Section 177 of the Companies Act, 2013, regarding related party transactions were evident. The audit firm neglected to verify revenue occurrence, completeness, and accuracy and failed to critically evaluate management's assertions regarding arm's length transactions. These failures directly contravened SA 550's requirements, highlighting significant deficiencies in audit procedures and reporting standards.
	SA 200	Overall Objectives of an Independent Auditor and Compliance with Standards on Auditing	Failure to Comply with Basic Audit Requirements	The audit at IL&FS revealed multiple instances of non-compliance with basic audit requirements under SA 200. Two associate companies were improperly excluded from the Consolidated Financial Statements against the provisions of the Companies Act, 2013. Materiality and performance materiality thresholds were not effectively applied, with inadequate communication with Those Charged With Governance (TCWG). Additionally, the audit firm

Audit Quality Review (AQR) Report

Sr. No.	SA No. Ind AS No.	Name of SA and Reference of SA Para	Topic for Non Compliance	Explanations
				displayed an incorrect understanding of auditing standards as 'principle-based' rather than mandatory, failing to assess risks of material misstatement adequately. These failures underscored fundamental deficiencies in audit planning, execution, and reporting. The findings of the NFRA reveal a stark deficiency in the audit firm's adherence to SA 200, leading to a lack of reasonable assurance in the audit of IL&FS's financial statements. NFRA concludes that the audit firm issued its audit report without achieving reasonable assurance regarding the financial statements' freedom from material misstatement, whether due to fraud or error. This critical failure highlights significant shortcomings in the audit procedures performed by the firm. Particularly, the audit firm's failure to exercise professional skepticism, as mandated by SA 200, contributed to overlooking substantial issues such as impairment of investments, evergreening of loans, and related party transactions. By not sufficiently challenging management assertions and claims, the audit firm compromised the integrity and reliability of the audit process, failing to meet the stringent requirements set forth by SA 200.

Sr. No.	SA No. Ind AS No.	Name of SA and Reference of SA Para	Topic for Non Compliance	Explanations
	SA 220	Engagement Quality Control Review	Failure to Comply with Quality Control Norms	Quality control issues at IL&FS's audit underscored significant violations of SA 220. The audit firm's quality control policies, drafted by a global entity (EY), lacked alignment with Indian laws and specific guidelines on independence norms and client relationships. The Engagement Quality Control Review (EQCR) was inadequately performed, with superficial evaluation by the EQCR reviewer failing to meet SA 220's rigorous standards. These lapses compromised the audit firm's ability to ensure compliance with professional standards and regulatory requirements, indicating serious deficiencies in quality control measures.
	SA 230, SA 200	Audit Documentation	Importance of Professional Skepticism and Documentation	SA 230 underscores the fundamental principles of audit practice, emphasizing the crucial role of comprehensive audit documentation. In the case of IL&FS, these principles were severely compromised by the audit firm. SA 200 talks about professional skepticism, a cornerstone of auditing standards, which mandates auditors to critically assess management's assertions and to maintain an attitude of questioning and vigilance throughout the audit process. However, the audit firm's deficient application of professional skepticism led to inadequate scrutiny of significant financial statement items such as investments, loans, and revenue from related parties. Moreover, the audit documentation prepared by the firm was found to be inadequate, lacking clarity

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				and completeness in recording professional judgments, decisions, and audit procedures performed. This deficiency not only hindered transparency in audit execution but also compromised the ability to provide sufficient evidence of the audit's thoroughness and accuracy. Therefore, the audit firm's failure to uphold these core principles of SA 200 and 230 demonstrate significant lapses in meeting the rigorous standards required for conducting audits effectively and responsibly.
	SA 260	Communication with Those Charged With Governance	Inadequate Reporting to Those Charged With Governance	The NFRA's assessment highlights critical deficiencies in the audit firm's compliance with SA 260, specifically concerning communication with Those Charged With Governance (TCWG) at IL&FS. SA 260 mandates auditors to communicate effectively with TCWG to provide them with timely and relevant information regarding significant audit matters. However, the audit firm's performance in this regard was severely lacking. There was a clear failure to establish and maintain effective communication channels with TCWG throughout the audit process. This omission deprived TCWG of crucial insights into audit findings, including significant issues such as the valuation of investments, impairment of assets, and compliance with regulatory requirements. By neglecting to engage TCWG adequately, the audit firm not only violated SA 260 but also undermined the governance structure's ability

Learning from NFRA Orders/Report

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				to exercise oversight and make informed decisions. This lapse underscores the importance of robust communication protocols between auditors and TCWG, essential for ensuring transparency, accountability, and the integrity of financial reporting processes.

Annexure & Abbreviations

Standards on Quality Control (SQC)	
SQC 1	Quality Control for Firms that Perform Audit and Reviews of Historical Financial Information, and other Assurance and Related Services Engagements
Standards on Auditing (SAs)	
SA 200	Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing
SA 210	Agreeing the Terms of Audit Engagements
SA 220	Quality Control for an Audit of Financial Statements
SA 230	Audit Documentation
SA 240	The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements
SA 250	Consideration of Laws and Regulations in an Audit of Financial Statements
SA 260	Communication with Those Charged with Governance
Revised SA 260	Communication with Those Charged with Governance
SA 265	Communicating Deficiencies in Internal Control to Those Charged with Governance and Management
SA 299	Responsibility of Joint Auditors
Revised SA 299	Joint Audit of Financial Statements
SA 300	Planning an Audit of Financial Statements
SA 315	Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment

SA 320	Materiality in Planning and Performing an Audit
SA 330	The Auditor's Responses to Assessed Risks
SA 402	Audit Considerations Relating to an Entity Using a Service Organisation
SA 450	Evaluation of Misstatements Identified During the Audit
SA 500	Audit Evidence
SA 501	Audit Evidence-Specific Considerations for Selected Items
SA 505	External Confirmations
SA 510	Initial Audit Engagements – Opening Balances
SA 520	Analytical Procedures
SA 530	Audit Sampling
SA 540	Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures
SA 550	Related Parties
SA 560	Subsequent Events
SA 570	Going Concern
Revised SA 570	Going Concern
SA 580	Written Representations
SA 600	Using the Work of Another Auditor
SA 610	Using the Work of Internal Auditors
Revised SA 610	Using the Work of Internal Auditors
SA 620	Using the Work of an Auditor's Expert
SA 700	Forming an Opinion and Reporting on Financial Statements
Revised SA 700	Forming an Opinion and Reporting on Financial Statements
SA 701	Communicating Key Audit Matters in the Independent Auditor's Report

Annexure & Abbreviations

SA 705	Modifications to the Opinion in the Independent Auditor's Report
Revised SA 705	Modifications to the Opinion in the Independent Auditor's Report
SA 706	Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report
Revised SA 706	Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report
SA 710	Comparative Information—Corresponding Figures and Comparative Financial Statements
SA 720	The Auditor's Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements
Revised SA 720	The Auditor's Responsibilities Relating to Other Information
SA 800	Special Considerations-Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks
SA 805	Special Considerations-Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement
SA 810	Engagements to Report on Summary Financial Statements
Abbreviations	
EP	Engagement Partner
ET	Engagement Team
EQCR	Engagement Quality Control & Review
EOM	Emphasis of Matter
TCWG	Those charged with governance
ROMM	Risk of Material Misstatement



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