"Learn as if you will live forever, live like you will die tomorrow."

Mahatma Gandhi

Connection

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Just to Remind You:

- May 11: Due Date for filling GSTR 1 (Except for IFF Assessee)
- May 13: Due Date for filling GSTR 1 for IFF Assessee.
- May 15: Due date for ESIC And PF Payment.
- May 20 - Payment of GST & filing of return for Inward & Outward Supplies for April 2024 by Regular & Casual Suppliers
- May 31- Due date Filling of TDS Return for FY 23-24 Q4

Inside this issue:

ICAI submits Pre-Budget Memorandum to CBDT advocating Tax Reforms

ICAI seeks tax incentives for entities engaged in Green Projects and Skill Development.

Separate provision for deduction of expenses relating to education of girl child and Mediclaim premium.

The Institute of Chartered Accountants of India (ICAI) presented its Pre-Budget Memorandum 2024 to the Central Board of Direct Taxes (CBDT). The comprehensive document encapsulates a spectrum of recommendations aimed at fostering economic growth, encouraging environmental sustainability, and enhancing social welfare through prudent tax reforms. Below are some key highlights from the memorandum.

In the Pre-budget Memorandum, ICAI seeks tax incentives for entities engaged in green projects that impact environment positively and entities exclusively engaged in skill development programmes, considering their contemporary relevance and importance. Further, it has been suggested that interest income earned by the subscribers of green bonds may be exempt or, in the alternative, be subject to a concessional rate of tax.

In line with the Government's campaign to promote education of the girl child, a separate provision for deduction of expenses relating to education of girl child both under the default tax regime and alternative tax regime has been suggested in the Memorandum. The significant suggestions relating to the Personal Taxation regime include provision of deduction for Mediclaim premium paid under the default tax regime, regular enhancement of standard deduction and option of joint taxation for married couples.

On this occasion CA. Ranjeet Kumar Agarwal, President, ICAI, said, "ICAI has pioneered formulating Standards on Sustainability Reporting, shaping the ESG reporting landscape in the country. In order to enhance green finance and encourage green projects, we have advocate for special incentives to entities undertaking Green Projects and propose exemption for interest income of subscribers of green bonds issued by such entities"

On the business taxation front, the suggestions include alignment of the provisions of tax audit with the presumptive income provisions, further simplification of presumptive income regime and increase in threshold for computation of allowable remuneration of partners. In addition, clarifications were sought on the provisions of section 43B(h). The Memorandum also contains suggestions for rationalization of the provisions relating to taxation of charitable trusts. Allowing filing of updated return in case of reduction in losses and permitting filing of such return where assessment proceedings are completed are some important suggestions in relation to return filing.

Rationalization of the tax rate under section 115BBE (as well as the surcharge thereon) on deemed income under sections 68 to 69D has been suggested, considering that these provisions can be invoked at the discretion of the Assessing Officer; and non-initiation of prosecution proceedings where there is only a delay in remittance of tax are the other significant suggestions in the Memorandum.

The Pre-Budget Memorandum 2024 emphasizes the importance of rationalizing direct tax laws, minimizing litigation, and enhancing tax collection mechanisms, all geared towards fostering a conducive fiscal environment for the year 2024-25.

About ICAI

The Institute of Chartered Accountants of India (ICAI) is a statutory body set up by an Act of Parliament under the Chartered Accountants Act, 1949 for the regulation and development of the profession of Chartered Accountancy in India. The Institute, functions under the administrative supervision of the Ministry of Corporate Affairs, Government of India. With around 8.5 lakh students and over 4 lakh members, today ICAI is the largest professional accountancy body in the world, with a strong tradition of service to the nation. ICAI has a wide network of 5 Regional Councils and 175 Branches within India and a global presence with 50 Overseas Chapters and 31 Representative Offices spanning 81 cities across 47 Countries.

Section 10(46) Notification: Kerala Autorickshaw Workers Welfare Fund Scheme

In exercise of the powers conferred by clause (46) of section 10 of the Income-tax Act, 1961 (43 of 1961), the Central Government hereby notifies for the purposes of the said clause, 'Kerala Autorickshaw Workers Welfare Fund Scheme, Kollam' (PAN:AAATK3080E), a Board constituted by the Government of Kerala, in respect of the following specified income arising to the said Authority, namely:- (a) Grant received from State Government of Kerala. (b) Contribution received from the workers registered as members in the Scheme. (c) Contribution received from self-employed persons and employers for workers, registering as members of the Scheme. (d) Registration fee. (e) Interest earned on bank deposits. 2. This notification shall be effective subject to the conditions that Kerala Autorickshaw Workers Welfare Fund Scheme, Kollam,- (a) shall not engage in any commercial activity; (b) activities and the nature of the specified income shall remain unchanged throughout the financial years; and (c) shall file return of income in accordance with the provision of clause (g) of sub-section (4C) of section 139 of the Income-tax Act, 1961. 3. This notification shall be applied for assessment years 2024-2025, 2025-2026, 2026-2027, 2027-2028 and 2028-2029 relevant for the financial years 2023-24, 2024-2025, 2025-2026, 2026-2027 and 2027-2028 respectively.

CBDT approves IIT, Kharagpur for scientific research under Income-tax Act, 1961

In exercise of the powers conferred by clause (ii) of sub-section (1) of section 35 of the Income-tax Act, 1961 (43 of 1961) read with Rules 5C and 5E of the Income-tax Rules, 1962, the Central Government hereby approves 'Indian Institute of Technology, Kharagpur' (PAN: AAAJI0323G) under the category of 'University, college or other institution' for 'Scientific Research' for the purposes of clause (ii) of sub-section (1) of section 35 of the Income-tax Act, 1961 read with rules 5C and 5E of the Income-tax Rules, 1962. 2. This Notification shall apply with effect from the date of publication in the Official Gazette (i.e. from the Previous Year 2023-24) and accordingly shall be applicable for Assessment Years 2024-25 to 2028-29. research-income-tax-act-1961

Notification under Section 80G(2)(b) for Shree Ramanuj Kot Trust Indore

In the exercise of the powers conferred by clause (b) of sub -section (2) of section 80G of the Income-tax Act, 1961 (43 of 1961), the Central Government hereby notifies "Shree Ramanuj Kot Laxmi Venkatesh Mandir" managed by Shree Ramanuj Kot Trust, Indore, Madhya Pradesh (PAN: AAATR0970L) to be place of historic importance and a place of public worship of renown throughout the state of Madhya Pradesh for the purposes of the said section. The Notification will be valid only for the renovation or repair of the "Shree Ramanuj Kot Laxmi Venkatesh Mandir" to the extent of Rs. 1,63,06,311/-(Rupees One Crore Sixty Three Lakhs Six Thousand Three Hundred and Eleven only) and will cease to be effective after the said amount has been collected or on 31.03.2029, whichever is earlier.

SAED on Petroleum Crude Production Reduced to ₹8,400 per Tonne from May 01, 2024

In exercise of the powers conferred by section 5A of the Central Excise Act, 1944 (1 of 1944) read with section 147 of the Finance Act, 2002 (20 of 2002), the Central Government,

on being satisfied that it is necessary in the public interest so to do, hereby makes the following further amendments in the notification of the Government of India in the Ministry of Finance (Department of Revenue), No. 18/2022-Central Excise, dated the 19th July, 2022, published in the Gazette of India, Extraordinary, Part II, Section 3, Sub-section (i), vide number G.S.R. 584 (E), dated the 19th July, 2022, namely:- In the said notification, in the Table, – (i) against S. No. 1, for the entry in column (4), the entry "Rs. 8400 per tonne" shall be substituted; 2. This notification shall come into force on the 1st day of May, 2024.

Partial modification to IBBI's 2023 circular on liquidators' fees

1. The Insolvency and Bankruptcy Board of India (IBBI) issued a circular dated 28th September 2023 titled 'Clarification w.r.t. Liquidators' fee under clause (b) of sub-regulation (2) of Regulation 4 of IBBI (Liquidation Process) Regulations, 2016' ('the circular'). 1.1 Further, vide order dated 04th April 2024, of the Hon'ble Bombay High Court in the matter of Amit Gupta vs. Insolvency and Bankruptcy Board of India & Union of India (Writ Petition (Lodging) No. 34701 of 2023), while confirming the validity of remaining paras of the circular, Paragraph 2.1 ('Amount Realised') and Paragraph 2.5 ('Period for calculation of fee') have been struck down. 1.2 Accordingly, vide this circular, para 2.1 and para 2.5 of the said circular of 28th September 2023 are being withdrawn.

CCI Launches Market Study on Artificial Intelligence and Competition

1. The Competition Commission of India, ('CCI'/ 'Commission') is a statutory authority established under the Competition Act, 2002 ('Act'). Section 18 of the Act casts a duty on the Commission to eliminate practices having adverse effect on competition, promote and sustain competition, protect the interests of consumers and ensure freedom of trade carried on by other participants, in markets in India. 2 . CCI is launching a Market Study on Artificial Intelligence (AI) and Competition. The transformative capabilities of AI have significant procompetitive potential, at the same time there may be competition concerns emanating from the use of AI. The proposed Study will be a knowledge building exercise to develop an in-depth understanding of the emerging competition dynamics in the development ecosystems of AI systems and implications of AI applications for competition, efficiency and innovation in key user industries. 3. The objectives of the Study are the following: i) To understand certain key AI systems and markets/ ecosystems thereof, including AI actors/stakeholders, essential inputs/resources, value chains, market structures and parameters of competition; ii) To examine the emerging and potential competition issues in these markets/ecosystems, if any; iii) To study the scope and nature of AI applications/use cases, and assess associated opportunities, risks and ramifications from a competition standpoint; iv) To understand the existing and evolving regulatory/legal frameworks governing AI systems and applications in India and other major jurisdictions; v) To reach out to all relevant stakeholders for a holistic understanding of the issues at the intersection of AI and competition; vi) To understand trends and patterns of AI and to ascertain enforcement and advocacy priorities of the Commission with respect to AI and its application in markets. 4. Proposals are invited for engagement of an Agency/ Institution for conducting the Study. The last date for submission of proposals is 03.06.2024 (by 05:00 PM). 5. For detailed Request for Proposal (RFP), eligibility criteria and Terms & Conditions, please visit our website: https://www.cci.gov.in/

PFRDA (Mechanism for Making and Review of Regulations) Regulations, 2024

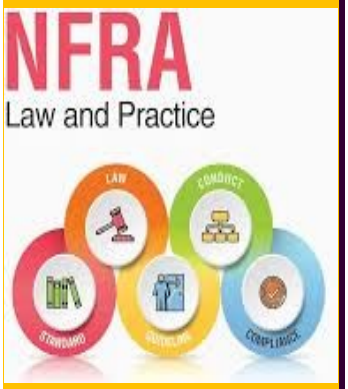
1. Short title, application and commencement. (1) These regulations may be called the Pension Fund Regulatory and Development Authority (Mechanism for Making and Review of Regulations) Regulations, 2024. (2) Save as otherwise provided, these regulations shall come into force on the date of their publication in the Official Gazette. (3) These regulations shall not apply to regulations made by the Authority concerning its organizational matters. 2. Definitions. (1) In these regulations, unless the context otherwise requires, – (a) "Act" means the Pension Fund Regulatory and Development Authority Act, 2013 (23 of 2013); (b) "Authority" means the Pension Fund Regulatory and Development Authority established under sub-section (1) of section 3 of the Act; (c) "Chairperson" means the Chairperson of the Authority; (d) "Internal Review Committee" means the committee consisting of officers of the Authority nominated by the Chairperson; and (e) "Regulations Advisory Committee" means the advisory committee constituted by the Chairperson under regulation 7. CHAPTER II MAKING AND REVIEW OF REGULATIONS 3. Making regulations. The Authority may, make regulations consistent with the provisions of the Act and the rules made thereunder. For this purpose, regard may be had to the socio-economic environment and industry global best practices, to protect the interest of subscribers. 4. Periodic review of regulations. The review of regulations may be periodically conducted in the interest of the subscribers, including on the aspect of rationalizing the compliance cost, ease of doing business or to amend or repeal any regulations or provisions thereof, after considering the following: – (a)Aits objectives and the outcome; (b) its enforcement and other legal aspects; (c) global best practices, if any; (d) need for principle-based regulations; or (e) any other factor considered relevant by the Authority. 5. Public consultation. (1) For the purpose of making regulations, the Authority may upload the following on its website for seeking public comments (including active stakeholder consultation): – (a) the specific provision of the Act, under which the Authority proposes to make regulations; (b) a statement of the problem addressed by the proposed regulations; (c) draft of proposed regulations; (d) an economic analysis of the proposed regulations carried out in accordance with the provisions of regulation 6 of these regulations; (e) a statement carrying norms advocated by regulation setting agencies and the best practices, if any, relevant to the proposed regulations; (f) the process, manner, and timelines for receiving public comments; and (g) the manner of implementing the proposed regulations. (2) The Authority shall allow a minimum of thirty days for the public to submit their comments. (3) The Authority shall review and publish the public comments received on its website, accompanied by a general statement of its response, with the notification of regulations. (4) If the Authority decides to make regulations in a form substantially different from the proposed regulations, it may to the extent required, follow the process under this regulation. (5) The regulations shall be enforceable from the date of its notification unless a different date is specified therein. (6) Without prejudice to the provisions of these regulations, the Authority may constitute a Regulations Advisory Committee in accordance with the provisions of Chapter III for the review of regulations, whenever it deems appropriate. 6. Economic analysis. (1) The Authority may be guided by an economic analysis of the proposed regulations, to be made either directly or through an external expert agency. (2) The economic analysis shall inter alia include the following: – (a) expected costs and benefits to subscribers, stakeholders, economy and the society, both direct and indirect, due to the proposed regulation; (b) how the proposed regulations further the objectives of the Act; and (c) cost of not having the proposed regulations. CHAPTER III REGULATIONS ADVISORY COMMITTEE 7. Constitution and composition of the Regulations Advisory Committee. (1) For the purpose of regulation 3 and 4, the Chairperson may constitute a Regulations Advisory Committee, by nominating the following members: – (a) A whole time member of the Authority; (b) Not more than three independent external experts; and (c) An executive director of the Authority, who shall be the convenor of the Committee. (2) The independent external experts shall be nominated on the basis of the following: – (a) A person of eminence with knowledge and experience in the field of economics, finance, law or any other field considered relevant for the pension sector; and (b) Absence of any conflict of interest, which could influence performance of their duties and responsibilities. (3) The Chairperson shall nominate one of the

independent external experts to be the chair of the Committee. (4) The members of the Committee, including the independent external experts, shall be nominated on ad hoc basis to serve as members of the Regulations Advisory Committee. If a vacancy arises in the Committee, the Chairperson may nominate another member, as the case may be, for the residual period. 8. Scope of review by the Committee. (1) The Committee may give its recommendations on the proposed regulations or amendments, as may be placed before it by the Internal Review Committee, based on the following: – (a) Protection of the interest of the subscribers; (b) Ease of doing business, optimum regulations and reduced cost of compliance while ensuring balance; (c) Ensure transparency, enhanced disclosures and best practices of governance through the regulations; (d) Risk management to strengthen the National Pension System architecture by the Authority; and (e) Other relevant factors, if any. 9. Meetings of the Committee. (1) The Committee shall meet at such intervals as it may deem appropriate. (2) The quorum necessary for the transaction of business shall be two-third of the total strength of the Committee. (3) The meetings shall be held at the head office of the Authority. Notice and agenda for the meetings shall ordinarily be circulated at least seven days in advance, by the convenor to the Committee. (4) The minutes of the meeting shall be recorded in such form and manner as may be considered appropriate by the chair of the Committee. (5) The convenor shall also act as secretary to the Committee. (6) The Committee shall be provided with the adequate resources for carrying out its functions effectively. 10. Recommendations of the Committee. (1) The Committee shall submit its recommendations to the Authority, on the proposed regulations or amendments to the regulations, as per regulation 8. (2) Such recommendations shall be placed before the Pension Advisory Committee constituted under section 45 of the Act, along with the proposed regulations or any amendments thereto. (3) The Authority may consider the recommendations submitted under sub-regulation (1) and the advice of the Pension Advisory Committee provided in accordance with section 45 of the Act, as it may deem fit. CHAPTER IV MISCELLANEOUS 11. Urgent Regulations. Where the Authority is of the opinion that certain regulations are required to be made or existing regulations are required to be amended or repealed urgently in the interest of the subscribers, it may make such regulations, amend or repeal the existing regulations or provisions thereof, as the case may be, without fully adhering to all or any of the requirements specified under these regulations.

Overstatement of profits: NFRA imposes Rs. 5 Lakh Penalty on Auditors of Vikas WSP Limited

In the matter of M/s S. Prakash Aggarwal & Co., ICAI Firm Registration No. 06105C, under Section 132(4) of the Companies Act 2013 read with Rule 11(6) of National Financial Reporting Authority 2018 1. This Order disposes of the Show Cause Notice ('SCN' hereafter) issued vide no. 23/46/2021, dated 04.12.2023, issued to M/s S. Prakash Aggarwal & Co., Sri Ganganagar, Rajasthan (ICAI Firm registration no. 06105C), which was appointed as the statutory auditor of Vikas WSP Limited, Rajasthan ('VWL' or 'the company' hereafter) for the Financial Year ('FY' hereafter) 2019-20. 2. This Order is divided into the following sections: A. Executive Summary B. Introduction & Background C. Matters relating to the liability of the Firm D. Lapses in the Audit E. Article of Charges of Professional Misconduct F. Penalty & Sanctions A. EXECUTIVE SUMMARY 3. The National Financial Reporting Authority ('NFRA' hereafter) initiated action under section 132 (4) of Companies Act 2013 ('Act' hereafter) against M/s S. Prakash Aggarwal & Co, the Audit Firm, for professional or other misconduct in the statutory audit of Vikas WSP Limited for the FY 2019-20. This was following the information received from Securities Exchange Board of India ('SEBI' hereafter), that the company did not recognize in its financial statements for FY 2019-20, the interest expense on its borrowings from banks, which resulted in overstatement of profits by the company. During FY 2019-20, VWL was a listed company at Bombay Stock Exchange ('BSE' hereafter) and therefore falls under NFRA domain.1 4. As is set out in this Order, the Audit Firm failed to meet relevant requirements of the Companies Act, Standards on Quality Control (SQC 12), Standards on Auditing ('SA' hereafter) in several significant respects, was grossly negligent and failed to apply professional skepticism and due diligence in the audit. 5. The Financial

Statements of VWL were materially misstated due to partial recognition of interest cost on Borrowings classified as NPAs by the Banks in the FY 2019-20, resulting in overstatement of profits. 6. The audit firm which was primarily responsible for establishing and maintaining a system of quality control that (a) the firm and its personnel comply with professional standards and regulatory and legal requirements; and (b) the reports issued by the firm or engagement partners are appropriate in the circumstances, failed to properly implement its quality control policies and procedures. 7. Based on our investigation and proceedings under section 132 (4) of the Companies Act and after giving an opportunity to present its case, we find the audit firm guilty of professional misconduct and impose through this Order a monetary penalty of Rs. 5,00,000/- (Rupees Five lakhs only). This Order will take effect after 30 days from its issue. B. INTRODUCTION & BACKGROUND 8. The National Financial Reporting Authority is a statutory authority set up u/s 132 of the Companies Act 2013 to monitor implementation and enforce compliance of the auditing and accounting standards and to oversee the quality of service of the professions associated with ensuring compliance with such standards. NFRA is empowered u/s 132 (4) of the Act to investigate the prescribed classes of companies and impose penalty for professional or other misconduct of the individual members or firms of chartered accountants. 9. The Statutory Auditors, both individual and firm of chartered accountants, are appointed by the members of company u/s 139 of the Act. The Statutory Auditors, including the Audit Firm (Firm), Engagement Partner (EP), Engagement Quality Control Review Partner (EQCR) and the Engagement team (ET) that conduct the audit are bound by the duties and responsibilities prescribed in the Act, the rules made thereunder, the Standards on Auditing, including the Standards on Quality Control and the Code of Ethics, the violation of which constitutes professional misconduct, and is punishable with penalty prescribed under section 132 (4) (c) of the Act. 10. NFRA took up investigation under section 132 (4) of the Act after receipt of a letter dated 25.08.2021 from SEBI about overstatement of profits by VWL due to non-recognition of interest cost on borrowings classified as Non-Performing Assets by the lending banks. 11. Vide NFRA letter 11.11.2021, the Audit File and SQC 1 policy of the Firm were called from the EP. In response, on 08.12.2021, the EP furnished a part of the audit file along with main points of SQC 1 Practice and Procedure followed by the Firm. On 21.12.2021, a reminder was sent to the EP asking him to submit the complete audit file and SQC1 Policy of the Firm. The EP sought extension of time of 30 days and was granted time till 20.01.2022. On 20.01.2022, the EP submitted the SQC1 Policy of the Firm and some part of the audit file stating that “some audit documents available in hard form are of poor quality and their copies were blurred, would be filed after getting digitalized with the help of specialist”. As submission of balance part of the audit file was still pending, the EP was again asked on 29.03.2022 to submit the complete audit file along with the Affidavit latest by 07.04.2022. Finally, on 19.04.2022, the EP submitted the balance part of the audit file and an Affidavit stating that the complete audit file had been submitted. 12. On 29.06.2022 an SCN was issued to the EP, CA Som Prakash Aggarwal. Vide NFRA’s Penalty Order3dated 12.09.2022 CA Som Prakash Aggarwal, was held guilty of professional misconduct, as he failed to comply with the requirements of the SAs while discharging his professional duties as the EP of VWL for the FY 2019-20. Accordingly, CA Som Prakash Aggarwal was awarded penalty vide the same order. 13. On being satisfied that sufficient cause existed to take action against its firm also under subsection (4) of section 132 of the Companies Act, a Show Cause Notice (SCN hereafter) was issued to M/s S. Prakash Aggarwal & Co., on 04.12.2023 asking to show cause why action should not be taken against the Firm for professional misconduct in respect of their performance as the Statutory Auditor of VWL for the FY 2019-20. The Firm was charged with professional misconduct of: a. failure to disclose a material fact known to him, which is not disclosed in a financial statement, but disclosure of which is necessary in making such financial statement, where he is concerned with that financial statement in a professional capacity. b. failure to report a material misstatement known to him to appear in a financial statement with which the EP is concerned in a professional capacity. c. failure to exercise due diligence and being grossly negligent in the conduct of professional duties. d. failure to obtain sufficient information which is necessary for expression of an opinion, or its exceptions are sufficiently material to negate the expression of an opinion; and e. failure to invite attention to any material departure from the generally accepted procedures of audit applicable to the circumstances. 14. The Firm filed an Interlocutory Application (IA No. 931/2024) before the Hon’ble National Company Law Appellate Tribunal, against the SCN dated 04.12.2023, seeking intervention of the Hon’ble Tribunal and pass appropriate directions in the case under consideration. 15. Vide email dated 03.01.2024, the EP



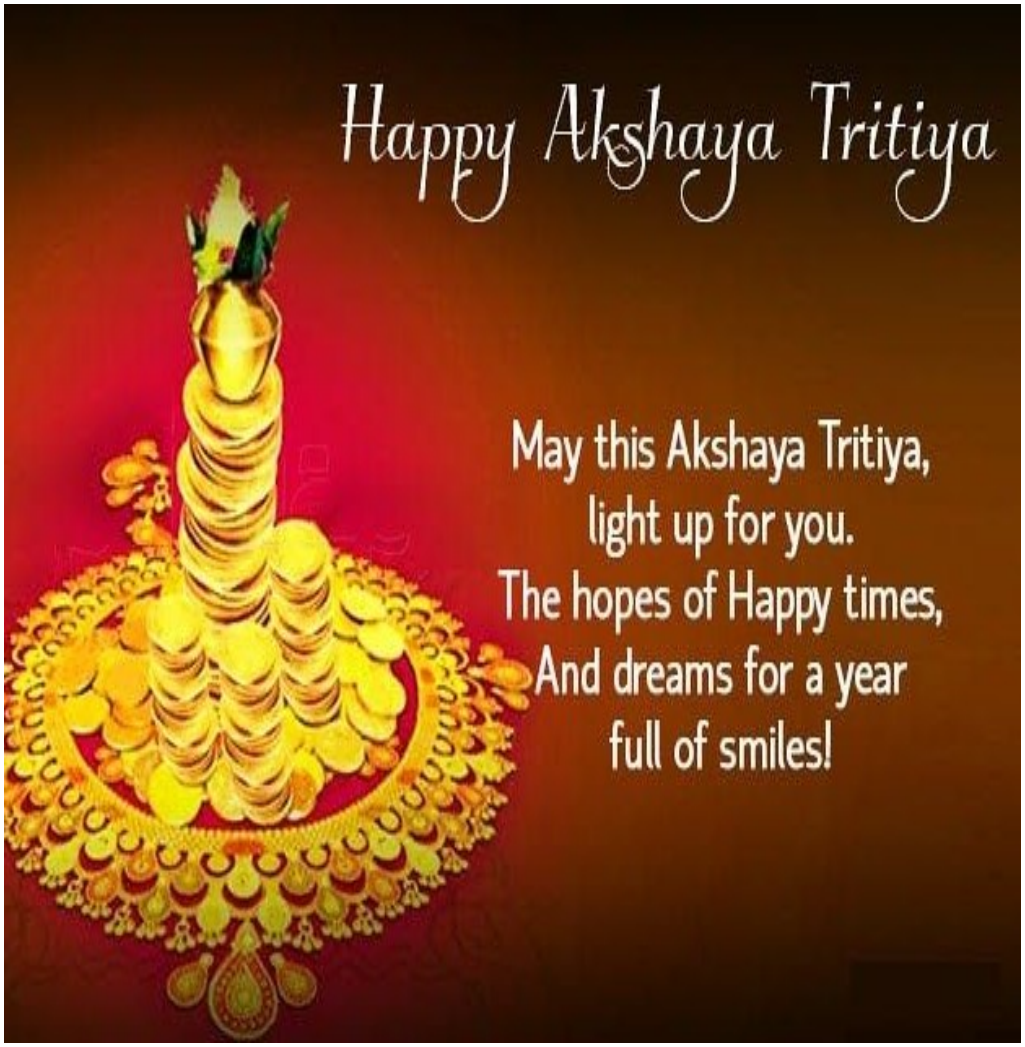
requested for extension of time to submit the Firm's replies to the SCN, which was granted till 23.01.2023. Vide letter dated 23.01.2024, the firm conveyed its inability to submit the replies to the SCN and requested to keep the proceedings against the Firm in abeyance till disposal of the Interlocutory Application. Following the principles of natural justice, another opportunity was provided on 09.02.2024 to submit the Firm's replies to the SCN by 14.02.2024. The Firm submitted its replies to the SCN on 14.02.2024. The Firm has not availed of the opportunity of personal hearing. 16. We have perused all the material on record including the written responses of the Firm. Our findings on the charges levelled against the Firm are discussed in Part C and D of this Order respectively. C. Matters relating to the liability of the Firm 17. The Firm, while submitting its replies to the SCN has stated that for all the non-compliances related to the statutory audit of the VWL for the FY 2019-20, the EP was held responsible and was also penalized under section 132 (4)(c) of the Companies Act, 2013. Hence, any action against the Firm for the same alleged offences, would be a case of disproportionate punishment and double jeopardy against the EP. Therefore, SCN dated 04.12.2023 is ultra vires the provisions of the law. The Firm further stated as follows: i) As per Para 7 and 8 of SA 220, the EP is responsible for the (audit) engagement, performance, and quality. Further, as per footnote 2 to Para 3 of SQC 1, in India audit reports are not issued by the audit firms. They are issued by the EP. Hence, for non-compliance of auditing standards, only the EP is accountable, even if the duties have been cast on the ET and the EQCR. ii) In line with the requirements of Para 2 of SA 220 the responsibility of the audit firm is to put in place a system of quality control with policies and procedures. There is no requirement in SA 220 to ensure adequacy of quality control systems as it was alleged in Para 54 of the SCN. In the extant case, since the firm has an SQC 1 policy commensurate with the size and nature of its operations, there is no misconduct on its part. iii) Professional misconduct or other misconduct is required to be ascertained strictly according to the Explanation to section 132(4) (c) which provides that "professional misconduct or other misconduct" have the meaning assigned to it under Section 22 of the CA Act, 1949, which defines professional or other misconduct, has no provisions or instances to hold an audit firm guilty of professional misconduct. Therefore, noncompliance of Auditing Standards or Code of Ethics on its own cannot constitute professional misconduct, nor can it invite penalties prescribed under Section 132(4) of the Act. iv) It has only two partners CA Som Prakash Aggarwal (EP of VWL for FY 2019-20) and CA Yogesh, who joined the firm with effect from 18th June 2022. The statutory audit of VWL for FY 2019-20, was conducted prior to the joining of CA Y ogesh as a partner. Hence, CA Yogesh is neither answerable nor accountable to the SCN, and although SCN is addressed to the Firm, the actual effect of the proceedings would be only on the EP. In effect the SCN proposes to punish the EP for the same alleged offences for a second time, which is a case of double jeopardy. 18. We have carefully gone through the replies submitted by the firm and observe as follows: i) The contentions of the firm that only the EP is accountable for non-compliance with auditing standards is misconstrued. It is the firm that was appointed as the auditor under section 139 of the Act and it is the auditor (in this case the firm) that has to be held accountable for auditor's duties and responsibilities under section 143 of the Act, including compliance with the SAs. The audit firm is responsible for establishing and maintaining a system of quality control to provide reasonable assurance that the firm and its personnel comply with professional standards and regulatory and legal requirements, as required by Para 2 of SA 220 and Para 3 of SQC 1. The SAs, such as SA 200, SA 220, SA 230, SA 260 (Revised), SA 620 and SA 700(Revised) refer to SQC-1 when it comes to specific aspects of audit such as documentation, communication with those charged with governance, engagement of Auditor's expert, evaluating the adequacy of internal audit function of the Company, and general quality aspects. Footnote 2 to para 3 of SQC 1 referred to by the firm clearly states that the audit reports in India are issued/signed on behalf of the firm. Therefore, the firm cannot dissociate itself from the duties and responsibilities that must be complied within preparation and signing of the audit report. Therefore, the audit firm cannot absolve itself of the responsibilities for the non-compliances related to the statutory audit of VWL for FY 2019-20. ii) The contention of the firm that since it has established SQC 1 policy commensurate with the size and nature of its operations, there is no misconduct on its part is also misconstrued because, Para 2 of SA 220 read with Para 3 of SQC 1 requires the firm to not only to have an SQC 1 policy but also to 'reasonably assure' that the firm and its personnel comply with professional standards, legal and regulatory requirements and that the reports

issued by the firm or the EP are appropriate in the circumstances. iii) The contentions of the firm that noncompliance with Auditing Standards or Code of Ethics cannot constitute professional misconduct for a firm, is flawed. The firm was appointed as auditor of the company under section 139 of the Act. Section 143(9) of the Companies Act, 2013, mandates that every auditor shall comply with auditing standards. These standards provide essential guidelines and principles for conducting audits, ensuring the reliability and integrity of financial statements. Similarly, adherence to the Code of Ethics is fundamental to maintaining the profession's integrity, objectivity, and independence. Noncompliance with Auditing Standards or Code of Ethics undermines the fundamental principles of professional conduct and the integrity of financial reporting. Such breaches can directly impact the quality and reliability of audit reports, potentially misleading stakeholders and damaging public trust, thereby warranting disciplinary actions. The firm, as the appointed auditor, remains responsible for any professional misconduct committed by the individuals who perform the audit on behalf of the firm (e.g. EP and EQCR). Section 132(4)(c) empowers the NFRA to take action for professional or other misconduct committed by the members or firms of chartered accountants. iv) The contentions of the firm that the SCN proposes to punish the EP for the same alleged offences for a second time, and hence is a case of double jeopardy, is flawed and unacceptable. The relationship between a firm on one hand and the EP and EQCR on the other hand is that of a principal and agent. They remain jointly and severally responsible for professional misconduct observed during an audit. The appointment of a new partner does not absolve the firm of its accountability for any professional misconduct or breaches of auditing standards that occurred during any period. The firm, as a legal entity, has a continuous obligation to establish and maintain quality control systems, as mandated by auditing standards and regulatory requirements. These quality control systems are designed to ensure that the firm and its personnel comply with professional standards and regulatory obligations, regardless of changes in personnel. Therefore, the firm cannot evade responsibility for any deficiencies in its quality control systems or failure to enforce compliance with auditing standards, irrespective of the timing of appointment of other partner. D. Lapses in the Audit 19. The firm was charged5 for the following lapses in the statutory audit of VWL for the FY 2019-20: (i) VWL had borrowings of Rs. 135.65 cr for FY 2019-20 (Rs. 155.29 cr for FY 2018-19), which included credit facilities from the banks. There were defaults with respect to non-payment of interest and principal on the borrowings from the banks. The company, however, recognized only a part of interest cost (Rs. 4.16 cr) on financial liabilities for the FY 2019-20 (Rs. 21.07 cr for the FY 2018-19). As the liabilities on account of borrowings from the banks had not been extinguished as on 31.03.2020, VWL should have provided for the full interest cost, but the same had not been done. There was no documentation of the auditor's judgement and conclusions regarding the appropriateness of the company's interpretation and application of Ind AS 109 provisions regarding partial recognition of the interest cost. (ii) Deficiencies were noticed in audit documentation and audit evidence, for which the firm should remain responsible as the appointed statutory auditor. For instance, a. On perusal of the audit WPs6, it was noted that merely ledger copies of interest payments, bank loans (overdraft) and provision liability were documented. However, what audit procedures were applied to evaluate the appropriateness of interest cost on the borrowings availed from the banks was not found in the audit file. b. There was no documentation of discussions among members of the ET on the susceptibility of VWL's financial statements to material misstatements, as required by Para 32(a) of SA 315. c. Several inconsistencies were noticed in the Management Representation Letter7 (MRL), documented in the audit file. For instance, The MRL was not in accordance with the requirements of Para 13 of SA 580, as it was only for the quarter ended 31st March 2020 and not for the FY ending 31.03.2020. No explanation was given for non-consideration of interest cost on NPA loans. The MRL was incomplete as total value of investments as at 31.03.2020 was left blank. The details in the MRL relating to inventories were referring to a future date stating that" …. Inventories as at 30th September 2020 are the property of the company … " which is clearly inconsistent, as for the audit of FY 2018-19, ending on 31.03.2020, it was referring to the date beyond 31.03.2020. The MRL was not on the letterhead of the company and the name and designation of the issuing authority was also not traceable. All the above, point to the poor quality of the audit for which the audit firm should remain accountable. d. The audit firm was also charged for not meeting the requirements of Para 8 of SA 230, because on perusal of the audit file, one cannot clearly understand: The nature, timing, and extent of the audit procedures performed to comply with the SAs and applicable Ind AS. The results of the audit procedures performed, if any, and the audit evidence ob-

tained, and The professional judgements made by the EP in forming the audit opinion on the financial statements of VWL for the FY 2019-20. e. There was a huge difference between debit balance in the interest ledger8 (part of the audit file) and interest on financial liabilities disclosed in the financial statements. There was no documentation of Trial Balance for the year ended 31.03.2020. f. There was no documentation of verification of interest certificates and balance confirmations from banks. g. There was no documentation of communications with Those Charged With Governance (TCWG) in respect of the: overview of the planned scope and timing of the audit. Views about the significant qualitative aspects of VWL' s accounting practices including accounting policies, accounting estimates and financial statement disclosures as required by Para 16 (a) of SA 260. Communications with TCWG as required by Para 19 of SA 260. h. The EP, while submitting the audit file to NFRA, stated that despite his best efforts, he was unable to retrieve most of the work papers because they got damaged and disintegrated into tom-up bits. He further added that over time, copies of audit documents became bloated and faded. As the Audit Firm is the custodian of the Audit File, the reply of the EP shows that the Audit firm failed to ensure assembly of the Audit File within 60 days after the issuance of the Independent Auditor's report9. It is also noted that as per the amendment in SQC 1 by ICAI10, an Auditor is required to retain the Engagement Documentation for no shorter than seven years from the date of auditor's report. However, the Audit Firm failed to comply with these requirements of the ICAI. (iii) The non-consideration of interest cost on NPA loans falls within the definition of 'Misstatement' as per Para 13(i) of SA 200 and its possible effects on the financial statements could be 'material and pervasive', necessitating modification of the audit opinion. It was also charged that, the EP on behalf of the audit firm had issued an unmodified opinion on the financial statements ofVWL for the FY 2019-20 without obtaining sufficient appropriate audit evidence. (iv) It was also charged that the EQCR was not appointed for the audit engagement of VWL for the FY 2019-20. This is a violation of Para 19(a) of SA 220. The audit firm was required to ensure that the EP was in compliance with the requirements of SQC 1, which it prima facie failed to do. (v) There was no documentation of how the EP had concluded that the ET was in compliance with independence requirements as stipulated in Para 11 of SA 220. The audit firm also failed to ensure the same through its overall audit quality monitoring mechanism. (vi) The EP did not document the following, as required by Para 24 of SA 220: Issues identified with respect to compliance with relevant ethical requirements and how they were resolved. Conclusions on compliance with independence requirements that apply to the audit engagement, and any relevant discussions with the firm that support these conclusions. Conclusions reached regarding the acceptance and continuance of client relationships and audit engagements. The nature and scope of, and conclusions resulting from, consultations undertaken during the course of the audit engagement. The Audit Firm also failed to ensure this. 20. The firm denied all the charges and reiterated that the BP was responsible for overall audit engagement including its quality and the firm was only responsible for formulation of SQC 1 policy, which it did in the extant case. It further stated that the charges in the present SCN are repetition of charges made in the SCN issued to the EP and because replies on these charges were provided by the EP, no further reply is warranted on the same. 21. We have examined the firm's reply and observe that it has not provided any justification or defences addressing the allegations levied against it. Instead, the firm's reply merely deflects accountability to the EP and contends that since responses were provided by the BP to similar charges in a previous SCN, no further reply is warranted. However, it is crucial to emphasize that the firm, as the legal entity, duly appointed as its statutory auditor remains responsible for compliance with auditing standards and quality control procedures and cannot evade accountability by shifting its responsibility to the individual partner. Considering the replies of the firm and the information available on record, the charges in the SCN against the firm stand proved. 22. Failure to properly monitor compliance with quality control policies, and procedures by audit firms has been viewed seriously by International Regulators as well. For example, the PCAOB11, the US Regulator, censured and imposed monetary penalty of$ 600,000 on the firm in the Matter of Pricewaterhouse-Coopers, for their failure inter alia to comply with the requirements of Quality Control Policies and Procedures of the Firm. E. Article of Charges of Professional Misconduct 23. Based on the above discussion and observations, it is proved that the audit firm failed to implement the quality control policies as required by SAs, within the firm. Therefore, we observe that: I. The audit firm committed professional misconduct as defined by clause 5 of Part I of the Second Schedule of the CA

Act, which states that a CA is guilty of professional misconduct when he "fails to disclose a material fact known to him which is not disclosed in a financial statement, but disclosure of which is necessary in making such financial statement where he is concerned with that financial statement in a professional capacity". This charge is proved as the audit firm failed to disclose in his report the material non--compliances by the company as explained in Para 12-17 above. II. The audit firm committed professional misconduct as defined by clause 6 of Part I of the Second Schedule of the CA Act, which states that a CA is guilty of professional misconduct when he "fails to report a material misstatement known to him to appear in a financial statement with which he is concerned in a professional capacity". This charge is proved as the audit firm, who was appointed as the statutory auditor, failed to disclose in its report the material non-compliances by the company as explained in Para 12-1 7 above. III. The audit firm committed professional misconduct as defined by clause 7 of Part I of the Second Schedule of the CA Act, which states that a CA is guilty of professional misconduct when he "does not exercise due diligence or is grossly negligent in the conduct of his professional duties". This charge is proved as the audit firm, who was appointed as the statutory auditor, failed to exercise due diligence in the audit of the company in accordance with the SAs and applicable regulations, as explained in Para 12-17 above. IV. The audit firm committed professional misconduct as defined by clause 8 of Part I of the Second Schedule of the CA Act, which states that an EP is guilty of professional misconduct when he "fails to obtain sufficient information which is necessary for expression of an opinion, or its exceptions are sufficiently material to negate the expression of an opinion". This charge is proved as the audit firm, who was appointed as the statutory auditor, failed to conduct the audit in accordance with the SAs and applicable regulations and failed to analyse and report the appropriateness of accounting policy for recognition of interest cost on loans classifies as NPAs, as explained in Para 12-17 above. V. The audit firm committed professional misconduct as defined by clause 9 of Part I of the Second Schedule of the CA Act, which states that an EP is guilty of professional misconduct when he "fails to invite attention to any material departure from the generally accepted procedure of audit applicable to the circumstances". This charge is proved since the audit firm, who was appointed as the statutory auditor, failed to conduct the audit in accordance with the SAs as explained in Para 12-17 above. 24. In view of the foregoing, we conclude that the charges of professional misconduct enumerated in the SCN dated 04.12.2023 stand proved based on the evidence in the Audit File, the Audit Report issued by the EP on behalf of the audit firm, the submissions made by the audit firm, the annual report of Vikas WSP Limited for the FY 2019-20 and other materials available on record. F. Penalty & Sanctions 25. It is the duty of the audit firm to formulate and implement quality control policies, and procedures and ensure that the firm and its personnel comply with professional standards and regulatory and legal requirements and the Independent Auditor's Report issued by the firm or engagement partners are appropriate, as it is expected to provide useful information to the stakeholders and public, based on which they make decisions on their investments or do transactions with the public interest entity12. Without a credible audit, investors, creditors and other users of Financial Statements would be handicapped, and the corporate governance system would be seriously challenged and result in a breakdown in trust and confidence of investors and the public at large. 26. Section 132(4) of the Companies Act, 2013 provides for penalties in a case where professional misconduct is proved. The seriousness, with which proved cases of professional misconduct are viewed, is evident from the fact that a minimum penalty is laid down by the law. 27. The audit firm in the present case was required to ensure compliance with SAs to ensure the audit quality and lend credibility to Financial Statements. As we have explained in this Order, substantial deficiencies in the audit work of the EP, abdication of responsibility and omissions and commissions on the part of M/s S. Prakash Aggarwal & Co., establish professional misconduct. As per the statutes, the audit firm is required to ensure the adequacy of the quality control systems by adoption of proper policies and procedures, and the very objective of audit quality review is defeated if the audit firm does not perform its duties as stipulated by the standards. 28. Section 132(4) (c) of the Companies Act 2013 provides that the National Financial Reporting Authority shall, where professional or other misconduct is proved, have the power to make order for: A) imposing penalty of (I) not less than one lakh rupees, but which may extend to five times of the fees received, in case of individuals; and (II) not less than five lakh rupees, but which may extend to ten times of the fees received, in case of firms; (B) debarring the member or the firm from (I) being appointed as an auditor or internal auditor or undertaking any audit in respect of financial statements or internal audit of the functions and activities of

any company or body corporate; or (II) performing any valuation as provided under section 247, for a minimum period of six months or such higher period not exceeding ten years as may be determined by the National Financial Reporting Authority. 29. As per the information available from the Annual Report for the FY 2019-20, it is observed that the audit firm earned an audit fee of Rs. .../- 30. Considering the proved professional misconduct and keeping in mind the nature of violations, principles of proportionality and deterrence against future professional misconduct, and also keeping in mind that the audit firm has not accepted the charges as pointed out in the SCN, we in exercise of powers under Section 132(4)(c) of the Companies Act, 2013, hereby order imposition of a monetary penalty of Rs. 5,00,000/- (Rupees Five lakhs only) upon M/s S. Prakash Aggarwal & Co.



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