

के अपने आदेश के द्वारा स्थायी रूप से सदस्यों के रजिस्टर से हटाने की अवधि को घटाकर 10 वर्ष कर दिया। उपर्युक्त आदेश के अनुसरण में तथा चार्टर्ड अकाउंटेंट्स विनियम, 1988 के विनियम 18 के साथ पठित उक्त अधिनियम की धारा 20 की उपधारा (2) द्वारा प्रदत्त शक्तियों का प्रयोग करते हुए, यह अधिसूचित किया जाता है कि सीए श्रीनिवास तल्लूरी (सदस्यता संख्या 029864) का नाम 3 जून, 2025 से 10 (दस) वर्ष की अवधि के लिए सदस्यों के रजिस्टर से हट जाएगा।

सीए. (डा.) जय कुमार बत्रा, सचिव
[विज्ञापन-III/4/असा./146/2025-26]

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

(Set up by an Act of Parliament)

NOTIFICATION

New Delhi, the 3rd June, 2025

(CHARTERED ACCOUNTANTS)

No. DD/1/S/INF/09/DC/40/2009.—In terms of the provisions of Section 21B(3) of the Chartered Accountants Act, 1949 read with Rule 18(17) of the Chartered Accountants (Procedure of Investigations of Professional and Other Misconduct and Conduct of Cases) Rules, 2007, the Disciplinary Committee has held **CA. Srinivas Talluri (Membership No. 029864), Flat No. 4B, Macherla Apartments, 6-3-1218/6, Umanagar, Begumpet, HYDERABAD 500016(Telangana)**, guilty of Professional Misconduct falling within the meaning of Clauses (5), (6), (7), (8) and (9) of Part I of Second Schedule to the aforesaid Act and consequently after affording an opportunity of being heard in terms of Rule 19(1) of the aforesaid Rules, ordered for removal of name of **CA. Srinivas Talluri (Membership No. 029864) permanently** from the Register of Members and also imposed a Fine of Rs. 5,00,000/- (Rupees Five Lakhs only) to be paid within 30 (Thirty) days. Aggrieved by the Order of the Disciplinary Committee the Respondent filed an appeal no 01/ICAI/2014 before the Appellate Authority under Section 22G of the aforesaid Act. Since the Appellate Authority was not functional at the relevant time, he also filed a Writ Petition WP(C) 2712/2014 before the Hon'ble High Court of Delhi in which The Hon'ble High Court vide order dated 30th April, 2014 granted interim stay till the disposal of Appeal by the Appellate Authority. Subsequently, the Appellate Authority after hearing the parties vide its Order dated 25th March, 2025 reduced the period of removal from permanent to 10 years. In pursuance of the aforesaid Order and in exercise of the powers conferred by sub-section (2) of Section 20 of the aforesaid Act read with Regulation 18 of the Chartered Accountants Regulations, 1988, it is hereby notified that the name of **CA. Srinivas Talluri (Membership No. 029864), shall stand removed from the Register of Members for a period of 10(Ten) years with effect from 3rd June, 2025.**

CA. (Dr.) JAI KUMAR BATRA, Secy.

[ADVT.-III/4/Exty./146/2025-26]

BEFORE THE APPELLATE AUTHORITY

(Constituted under The Chartered Accountants Act, 1949, The Cost and Works Accountants Act, 1959, and The Company Secretaries Act, 1980)

APPEAL NO. 01/ICAI/2014

[Arising out of the Impugned Orders dated 01.02.2013 & 21.10.2013 passed by the Disciplinary Committee (constituted under Section 21B of the Chartered Accountants Act, 1949)]

Talluri Srinivas

...Appellant

Vs.

The Institute of Chartered Accountants of India ...Respondent

Judgment reserved on: - 20-01-2025

Judgment pronounced on: - 25-03-2025

QUORUM:

Hon'ble Mr. Justice Talwant Singh	Chairperson
Hon'ble Mr. Rakesh Mohan	Member
Hon'ble Mr. Sandip Garg	Member
Hon'ble Mr. Pankaj Tyagee	Member
Hon'ble Mr. Anil Satyanarayan Bhandari	Member

For Appellant:

Mr. R. Sudhinder, Ms. Prerana Amitabh and Ms. Anushka Sharma, Advocates on behalf of the Appellant

For Respondent:

Ms. Pooja Mehra Saigal, Senior Advocate, Mr. Jatin Dua and Mr. Ankit Mittal, Advocates along with Mr. Anurag Sharma and Mr. Akshay Pandey appearing on behalf of the Respondent

JUDGMENT

1. The Appellant in the present appeal has challenged the order dated 21.10.2013 passed by the Disciplinary Committee, The Institute of Chartered Accountants of India ("Impugned Order") and the findings

of the Disciplinary Committee dated 01.02.2013, which formed the basis of the Impugned Order in Case No. DD/1/S/INF/09/DC/40/2009. The Appellant has been found guilty of Professional Misconduct falling within the meaning of Clauses (5), (6), (7), (8) and (9) of Part I of the Second Schedule to the Chartered Accountants Act, 1949 as amended by the Chartered Accountants (Amendment) Act, 2006 with respect to his professional duties in the matter of audit of Satyam Computer Services Ltd. ("Satyam"), during the period 01.04.2007 to 30.09.2008. Vide order dated 21.10.2013 the Disciplinary Committee has ordered removal of the Appellant's name from the Register of Members permanently and has imposed a fine of Rs. Five Lakhs upon the Appellant.

2. The facts, in brief, that are relevant for adjudication of the present appeal, are that M/s Price Waterhouse, Bangalore was appointed as the statutory auditor of Satyam with effect from FY 2000-2001 and continued till FY 2007-2008 and two quarters of next financial year. On 07.01.2009 Mr. B. Ramalinga Raju, the erstwhile Chairman of Satyam, wrote a letter to the Board of Directors with copies to regulatory authorities disclosing therein several financial irregularities in the books of accounts of Satyam, which led to investigations by Securities and Exchange Board of India, Central Bureau of Investigation and other agencies on the basis of which Crime No. 02/09 was registered on 09.01.2009 by CID, Hyderabad naming several accused persons, including the Appellant herein, under Sections 120B, 406, 409, 419, 420, 467, 471 and 477-A of the Indian Penal Code. The Appellant was arrested on 23.01.2009. On

30.01.2009, M/s Price Waterhouse informed the names of persons answerable to the allegations in the matter of Satyam, which included the name of the Appellant. The matter was transferred to CBI on 20.02.2009, which constituted a Multi-Disciplinary Committee (MDC) including the Respondent herein, thereafter, the ICAI group submitted its Report dated 05.04.2009 concluding *inter alia* that statutory auditors have failed to exercise reasonable care and compliance with Auditing and Assurance Standards.

3. CBI filed three chargesheets against various persons including the Appellant on 07.04.2009, 22.11.2009 and 07.01.2010. The Director (Discipline) of the Respondent Institute issued letter dated 10.01.2009 calling upon the M/s Price Waterhouse to disclose the names of the members answerable to the allegations. In response to the above letter M/s Price Waterhouse vide letter dated 30.01.2009 disclosed the names of the members answerable including the name of the Appellant herein. Thereafter, the Director Discipline formed a Prima Facie Opinion (PFO) dated 17.09.2009, that was agreed to by the Disciplinary Committee at its meeting dated 23.09.2009 and was sent to the Appellant, while he was still in judicial custody.
4. The Appellant was called upon to file his written statement, for which the Appellant sought time since he was in judicial custody. The Appellant was granted bail by the Hon'ble Supreme Court of India vide order dated 04.02.2010 passed in Criminal Appeal No. 257 of 2010 and he requested for a postponement of the hearing of the Disciplinary Committee, which was denied. The Appellant then filed a

Writ Petition being WP (C) No. 2505 of 2010 before the Hon'ble High Court of Delhi, which was dismissed vide order dated 22.11.2010.

5. The Disciplinary Committee fixed a hearing on 15.12.2010, which led the Appellant to file LPA No. 886 of 2010 before the Hon'ble High Court of Delhi. The Hon'ble Division Bench vide Order dated 14.12.2010 directed the Appellant to appear before the Committee on 15.12.2010 for the limited purpose of pleading guilty or not guilty. The Appellant appeared before the Committee and pleaded "Not Guilty".
6. The Respondent fixed several further hearings in the matter and during the course of the proceedings which led the Appellant to file an SLP (C) No. 20915 of 2011 before the Hon'ble Supreme Court of India praying that the hearing fixed by the Committee on 31.07.2011 be deferred. The Hon'ble Supreme Court vide order dated 01.08.2011 directed the Committee to commence hearings after 8 weeks.
7. During the course of the further hearings fixed by the Committee the Appellant filed a Writ Petition being WP (C) No. 8945 of 2011 wherein the Hon'ble High Court passed the interim order dated 23.12.2011 directing that the decision of the Committee would be subject to the outcome of the said petition.
8. Since there was no stay granted by the Hon'ble High Court, the Committee gave its Findings dated 03.01.2012, subject to the order passed by the Hon'ble High Court. In conclusion of the proceedings,

the Committee held the Appellant guilty of "professional misconduct" falling within the meaning of clauses (5), (6), (7), (8) and (9) of Part 1 of the Second Schedule to the Chartered Accountants Act, 1949 (as amended up to date). The same was communicated to the Appellant vide letter dated 05.01.2012. Thereafter the Appellant was granted an opportunity of being heard in accordance with Rule 19(1) of the Chartered Accountants (Procedure of Investigation of Professional Misconduct and Other Misconduct and Conduct of Cases) Rules, 2007. The Committee vide final order dated 21.01.2012 directed removal of name of the Appellant permanently and imposed a maximum penalty of Rs.5.00 Lakhs. Thereafter, the Hon'ble Delhi High Court vide its judgment dated 13.03.2012 passed in W.P. (C) No. 8945 of 2011, granted the Appellant an opportunity to cross-examine witnesses and submit his defence. In pursuant to the above judgment, the Committee fixed the hearing dated 07.07.2012 and 08.07.2012 for this purpose. Accordingly, the Committee concluded the hearing and submitted its report dated 01.02.2013 holding the Appellant guilty of "professional misconduct" falling within the meaning of clauses (5), (6), (7), (8) and (9) of Part 1 of the Second Schedule to the Chartered Accountants Act, 1949 (as amended up to date).

9. Vide its Findings dated 01.02.2013, the Committee was of the opinion that:

"112. From the above facts and findings, the Committee concludes that:-

- *The Respondent was associated with the audit of Satyam as the Team Leader and the Signing Partner and has carried out the audit of Satyam during the period from 01.04.2007 to 30.09.2008.*
- *M/s Price Waterhouse, Bangalore, the Auditors of Satyam have confirmed that the Respondent was the Signing Partner involved in the audit of Satyam in the above period, and, therefore, made him answerable in the present case.*
- *The sales, debtors, cash and bank balances and the TDS on interest accrued of the Company were inflated to a large extent in the financial statements.*
- *The Respondent inspite of being aware of the inherent control deficiencies in the Company, did not extend the scope of audit and enlarge the substantive procedures, rather did not follow the established auditing procedures and further directed his team members to stop sending the confirmation letters to the third parties.*
- *The Respondent did not bring on record his working papers and other evidences to show that he being the Team Leader had taken necessary steps which were warranted in those circumstances.*
- *The Respondent has failed:*
 - *to disclose a material fact known to him which is not disclosed in the financial statement but disclosure of which was necessary in making such financial statements;*
 - *to report a material mis-statement known to him to appear in the financial statements;*
 - *to exercise due diligence and was grossly negligent in the conduct of his professional duties;*
 - *to obtain sufficient information which was necessary for expression of an opinion and the exceptions are sufficiently material to negate the expression of an opinion; and*
 - *to invite attention to material departure from the generally accepted procedure of audit applicable to the circumstances.*

- *The Respondent, being a member of the Institute has not followed the mandatory auditing standards and the applicable Guidance Notes while carrying out the audit of Satyam and thus was grossly negligent in discharging his professional functions.”*

10. After hearing the Appellant on 13.10.2013 and considering submissions of the Appellant, the Committee passed the punishment order dated 21.10.2013 ordering removal of name of Appellant from the Register of Members permanently with a fine of Rs. 5.00 Lakhs.

11. In the present Appeal the Appellant has challenged the decision of the Disciplinary Committee on various grounds. The Ld. Counsel for Appellant has argued that much of the evidence relied upon by the Committee in arriving at the impugned finding is weak, inconsistent and contradictory and as such does not support the conclusions. The Appellant also submitted that there are unsupported, inconsistent statements made before the Committee by certain key witnesses such as CA Ravindernath, Mr. A.Y.V. Krishna and also the statements made by certain key members of the audit team as made before the Hon'ble Trial Court, i.e., CA P.S. Sudhakar and CA N. Ramu; and investigating officers of CBI, Mr. T.V, Joy, Mr. S.S. Giri, which go to the root of the allegations of the Committee and question the findings thereof. It was also submitted that the Committee grossly erred in having overlooked the above mentioned aspects.

12. As per the Appellant, the Committee has wrongly drawn conclusions, such as the Appellant in spite of being aware of the inherent control deficiencies in the company did not extend the scope of audit and

enlarge the substantive procedures; did not follow the established auditing procedures; directed the team members to stop sending the confirmation letters to the third parties; failed to carry out necessary checks while carrying out duties as signing partner and thus he was grossly negligent in discharge of his duties etc., the same being erroneous and arrived at without the Committee making an attempt to understand and apply itself to the elaborate submissions made by the Appellant and the working papers brought before the Committee from time to time. It is further submitted by the Appellant that the Committee failed or deliberately chose not to deal with the aspects brought by the Appellant in his defence since the Committee did not understand and consider the audit working papers submitted in arriving at the impugned finding.

13. Further the Appellant has submitted that the Committee has demonstrated a complete lack of understanding qua the fraud perpetuated by Satyam and has further failed to understand that the Appellant has been associated with the audits of Satyam only for one year 2007-08 and for the first two quarters of 2008-09. So, the quantum and nature of punishment meted to the Appellant (having been associated with the audits at Satyam for a least period of time as compared to others) equally with all the other members answerable is excessive and unjustified by any standards.

14. The Appellant has also raised the following arguments on merit:

I. Audit of Satyam's internal controls:

The qualified information systems auditors of the audit team verified and tested the integrity of IT processes and internal controls. MyClient audit file shows the testing of controls performed in every area of Audit and the processes followed by Satyam for their business operations and maintenance of books. This review and testing did not reveal any serious concerns to point a fraud.

II. Cash And Bank Balances:

- i. Daily bank statements are non-existent documents and till date the same have not been produced in any of the proceedings.
- ii. The letters of bank confirmations were complementary, not contradictory, and no two confirmations pertained to the same account and all the confirmations, those received directly or purportedly received through Satyam put together added up to the total deposit amounts in the books.
- iii. The practice followed by the Appellant in obtaining balance confirmations and thereby his conduct was not unusual and not at variance with the prevalent practices at the relevant time.
- iv. 100% of the original FDRs were physically verified by the audit team and the amounts were matched with the books, besides performing other audit procedures, internal controls in the form

of compliance testing and detailed verification in the form of substantive testing.

III. Sales:

- i. Audit work in the area of sales as documented in the MyClient files included compliance testing (tests of controls) as well as substantive testing (detailed verification of transactions).
- ii. A total of 7,561 invoices out of the aggregate 74,625 invoices (i.e. only a little over 10%) over the period of eight years as found during investigations were hidden from the view of Company's own Finance In-charge (FICs). These invoices turned out to be not genuine. This aspect of creation and subsequent hiding of the fictitious invoices is central to the fraud in sales. As per the statement of Mr. T.V. Joy, Investigating Officer of CBI, out of 560 invoices, verified by the audit team effective audits from 01.04.2003, only two invoices related to the financial year 2007-08, the period of audit of the Appellant.
- iii. In support of sales, the audit team verified the entire document trail from the placement of purchase order till the realization of sales. There were no differences in the documents between genuine sales and those turned out to be fictitious later and hence at the time of audit, therefore there was no way for the auditor to have ascertained whether a sale transaction was genuine or fake.

IV. Debtors:

- i. Audit work in the area of debtors included compliance testing (tests of controls) as well as substantive testing (detailed verification of transactions).
- ii. Since there was a history of poor response for debtor balances circularized for confirmation, it was decided to employ alternative audit procedures (instead of confirmation procedures) as provided under AAS-30 and Guidance Note-22 Audit of Debtors, Loans and Advances.

V. Income Tax and TDS:

- i. There are no mandatory standards issued by the ICAI dealing with audit of income taxes.
- ii. There is no mandate which requires the auditor to carry out 100% verification of Form 16A i.e., tax deducted at source certificates. It is neither a customary practice of auditors nor it is practicable given the voluminous nature of such certificates.
- iii. Form 26AS, online statement of taxes deducted was not in existence at the relevant time as the Section under which it was introduced i.e. Section 203-AA of the Income Tax Act, 1961 was amended and was made effective from 1st April, 2008.

VI. Signing Audit Reports as partner of Price Waterhouse being a partner of Price Waterhouse, Bangalore:

- i. Name approved by ICAI as "Price Waterhouse, Bangalore" is against ICAI's own Regulations as set out under 190(2)(ii)(k) and 2(ii)(m), and hence it was intended to be of Price Waterhouse only.
- ii. Price Waterhouse, Firm Registration Number 007568S, was appointed as the statutory auditors of Satyam auditors from April 2000 until February 2009. The Appellant being a partner of the said firm correctly signed the balanced sheet on behalf of Price Waterhouse.

VII. The Prima-Facie Opinion (PFO) formed by Director Discipline was without the benefit of examining the Appellant as he was in custody.

VIII. The quorum of Disciplinary Committee on 23.09.2009 was not complete when PFO was considered.

IX. Institutional Bias has been also alleged against the Appellant as the Institution was part of the Multi- Disciplinary Investigation Team (MDIT) formed by the CBI.

- x. Approval of name of Price Waterhouse, Bangalore was against norms of the ICAI, and it ought to be Price Waterhouse only.
15. The Appellant has also submitted that he has suffered a lot during the intervening period and the punishment awarded is not commensurate with acts of negligence attributed to him.
16. On the other hand, the Ld. Counsel for the Respondent Institute has supported the findings of the Disciplinary Committee and has reiterated that the Appellant is guilty of professional misconduct while conducting the audit of Satyam and for which he has been rightly punished. All the defences raised by the Appellant are sham and are only an afterthought which were raised with a predefined purpose of defeating the due process of law. It has also been submitted that the Appellant failed to take due care while conducting the audit and he was swayed by the aura of a big concern like Satyam.
17. The Respondent (ICAI) urges this Hon'ble Appellate Authority to uphold and affirm the report of the Disciplinary Committee dated 01.02.2013, as well as the order dated 21.10.2013, directing permanent removal of the name of the Appellant from the Register of Members along with the imposition of a fine of Rs. 5.00 Lakhs on the Appellant. The Appellant has been rightly held guilty of professional misconduct within the meaning of clauses (5), (6), (7), (8), and (9) of Part I of the Second Schedule of the Chartered Accountants Act, 1949. The Disciplinary Committee has not examined whether the Appellant was guilty of fraud or actively conspired with

the management of Satyam Computer Services Limited, even though the ACMM, Hyderabad, has convicted the Appellant on the charge of conspiracy, which order is pending under appeal. The Committee has confined itself to the violation of the Rules and Regulations of the Professional Practice Norms.

18. The Respondent has further argued that:

- i. The PFO has been formed in accordance with the statute and the prescribed rules. The Appellant had sought quashing of the PFO dated 17.09.2009 by way of filing the Writ Petition No. 2505/2010, which was dismissed by the Hon'ble High Court vide Order dated 22.11.2010, and the LPA No. 886/2010 against the aforesaid Order was also dismissed vide Order dated 30.05.2011.
- ii. A Special Leave Petition No. 20915/2011 was also filed, and the only relief granted was that ICAI shall commence disciplinary proceedings from the week commencing 3rd October 2011. Thus, the challenge to the PFO is no longer tenable.
- iii. The Disciplinary Committee comprised three members, who took a unanimous decision. There is no embargo that resolutions cannot be passed by teleconferencing. The entire set of PFO and relied-upon documents were made available to each member along with notice of hearing when the PFO was placed before the DC for its consideration.

- iv. The MDIT report was not considered by the Director (Discipline) or the Disciplinary Committee at any stage, and neither the President nor the Vice President was a witness on behalf of the Director (Discipline).

19. The Respondent has also raised the following arguments on merit:

I. Price Waterhouse (Bangalore):

Satyam appointed M/s. Price Waterhouse, Bangalore, as its statutory auditors for the financial year 2000-2001 up to 30th September 2008. This is a separate and duly registered entity distinct from Price Waterhouse with a different firm registration number (FRN) of ICAI. The Appellant wrongly signed the audit report of the company for the financial year 2007-08 on behalf of Price Waterhouse when he was not a partner but was a partner in Price Waterhouse, Bangalore. This violated AAS-28, *The Auditor's Report on Financial Statements*, and Regulation 190(9)(i) of the Chartered Accountants Regulations, 1988.

II. Findings on Cash and Bank Balances:

The cash and bank balances for 2007-08 and the first and second quarters of 2008-09, as appearing in the balance sheet, were overstated compared to actual balances. The committee noted that the Appellant, as the engagement team leader and signing partner, ought to have independently examined the financial information. The Appellant failed to use available internet banking facilities to verify balances, which had been used for auditing

another similar company in Hyderabad. There were no details of non-scheduled banks in India mentioned in the balance sheet of Satyam as of 31st March 2008. The Appellant did not comply with AAS-5 (*Audit Evidence*) and AAS-30 (*External Confirmation*) concerning the reliability of external confirmations.

III. Differences in Fixed Deposits:

The committee noted discrepancies in the confirmations received from banks regarding fixed deposits. The Appellant and his team accepted FD receipts at face value without verifying interest calculations and corresponding TDS amounts. While the Appellant sent letters to banks seeking confirmations in a particular format, he accepted responses in any format. The Appellant failed to show how FD receipts were tallied with confirmations received or how TDS certificates were cross-verified with Form 16A. Banks such as ICICI and HDFC had no FDs from Satyam for the relevant period.

IV. Allegations regarding Accrued Interest on FDs:

The committee noted that accrued interest on FDs (₹376 crores) was non-existent and inflated. There were significant discrepancies between the actual TDS deducted by banks and the amounts reflected in Satyam's books. The Appellant failed to verify income tax returns, assessment orders, and TDS certificates. The Appellant admitted discrepancies between the books and income tax returns but was unable to explain them.

V. Allegations of Inflated Sales:

The committee noted that out of a sample of 6000 invoices, 560 were found to be forged and fabricated. These invoices contained standing project codes that did not appear in Satyam's project repository and were not traceable in the ONTIME and PBMS systems. The Appellant failed to verify invoice authenticity, even from the sample selected. Unlike in the audit of another company where online verification was done, the Appellant relied on Excel sheets provided by Satyam officials.

VI. Overstatement of Debtors in the Balance Sheet:

The debtors constituted 24%-30% of total assets, requiring special verification. The Appellant stopped sending confirmation requests to debtors after September 2007, relying instead on management assurances, which violated AAS-30. The committee noted reliance on SEBI and CBI reports, forensic investigations, and restated consolidated accounts of Satyam for 2009 and 2010. Penalties imposed by the Public Companies Accounting Oversight Board and the SEC (US) were also considered.

VII. Submissions of Respondent on why the Appeal must be rejected and DC Report dated 1st February 2013 be upheld:

Fabrication of financial statements is admitted by Satyam's management. The issue before the DC was the auditors' role concerning the fabricated financial statements. The Appellant's hindsight argument is untenable. The conduct of an auditor is examined based on facts at the relevant time, not in hindsight.

The Appellant's admissions on "testing procedures" and "sampling" indicate reliance on Satyam's internal controls without sufficient scepticism. The Appellant promised but failed to submit explanations for discrepancies in interest accrued on FDs and TDS certificates, leading to an adverse inference by the committee. The audit protocols relied on presumptions rather than independent verification. Third-party confirmations were inadequate, and alternative techniques relied solely on company-provided information. The Appellant failed to apply audit protocols used for another IT company in Hyderabad, where balances were verified online. The Appellant's claim that daily bank statements were unavailable contradicts Satyam's internal protocols. The SEBI Appellate Tribunal order did not exonerate the Appellant of professional misconduct; it only ruled that SEBI lacked the power to ban the firm. The appeal is devoid of merit and deserves to be rejected.

20. Thus, there are basically the following main issues which were pressed by the Appellant and the same even otherwise go to the root of the disciplinary proceedings. The said issues are:

I. Audit of Sales and Debtors:

i. Appellant in his written statement to the Authority submitted that:

"...for all invoices, the engagement team verified the project code, client name, and currency with the Master Software Services Agreement

(MSA) or purchase order. In addition, the engagement team verified the billing rate and hours billed when testing Satyam's time and material invoices. To verify the billing rate the engagement team compared the invoice with the contracted-for rate on the MSA or purchase order, which was counter- signed by the client. To verify the hours billed, the engagement team compared the time billed on the invoice with the time noted on the corresponding approved employee time records. The engagement team compared the amounts billed on the invoices against the customer-authorized milestones set forth in the MSA or purchase order when testing fixed bid contracts. The engagement team also verified client acceptance of the milestone or, in the absence of client acceptance, the engagement team verified collection from the customer for the invoice through either testing subsequent realization or collections testing. In addition, the audit team matched the total sales as per IMS with the books of account maintained on ORACLE. The audit procedures carried out were confirmed by the audit manager, Ch. Ravindernath in his statement before court..".

- ii. The Appellant also referred the relevant key requirements of "AAS-30 External confirmations" and "Guidance Note-22 Audit of Debtors, Loans and Advances" which are as reproduced below-

AAS-30

"2. The auditor should determine whether the use of external confirmations is necessary to obtain sufficient appropriate audit evidence to support certain financial statement assertions.

"4.In deciding to what extent to use external confirmations, the auditor considers the characteristics of the environment in which the entity being audited operates and the practice of potential respondents in dealing with the requests for direct confirmation."

"18. When obtaining evidence for assertions not adequately addressed by confirmations, the auditor considers other audit procedures to complement confirmation procedures or to be used instead of confirmation procedures."

"24. The auditor should consider the information from audits of earlier years. This information would, normally, include the misstatements, inaccuracies or irregularities identified by the auditor or those pointed out by the third parties in the earlier years, the response rate etc.,"

"34. The nature of alternative procedures varies according to the account and assertion in question. In the examination of accounts receivable, alternative procedures may include examination of subsequent cash receipts, examination of shipping documentation or other client documentation to provide evidence for the existence assertion, and sales cut-off tests to provide evidence for the assertion related to completeness."

Guidance Note-22 Audit of Debtors, Loans and Advances

"5-The auditor should study and evaluate the system of internal control relating to debtors, loans and advances, to determine the nature, timing and extent of his other audit procedures."

"6-Verification of debtors may be carried out by employing the following procedures: (a) examination of records; (b) direct confirmation procedure (also known as 'circularisation procedure'); (c) analytical review procedures. The nature, timing and extent of audit procedures to be performed is, however, a matter of professional judgement of the auditor."

"9-Verification of subsequent realizations is a widely used procedure, even in cases where direct confirmation procedure is followed. In the case of significant debtors, the auditor should also examine the correspondence or other documentary evidence to satisfy himself about their validity and accuracy."

"20-The verification of balances by direct communication with debtors is theoretically the best method of ascertaining whether the balances are genuine, accurately stated and undisputed, particularly where the internal control system is weak. It must be recognised, however, that mere confirmation of balance by a debtor does not by itself ensure ultimate recovery. Moreover, the utility of this procedure depends to a large extent on receiving adequate response to confirmation requests. Therefore, in situations where the auditor has reasons to believe, based on his past experience or other factors, that it is unlikely that adequate response would be received from the debtors, he may limit his reliance on direct confirmation procedure and place greater reliance on the other auditing procedures."

"35. The auditor should obtain from the management of the entity, a written statement regarding recoverability of debtors and loans and advances and their classification for balance sheet purposes. While such a representation letter serves as a formal acknowledgment of the management's responsibilities with regard to debtors, loans and advances, it does not relieve the auditor of his responsibility for performing audit procedures to obtain sufficient appropriate audit evidence to form the basis for the expression of his opinion on the financial information. A sample management representation letter regarding debtors, loans and advances is given in Appendix III to this Guidance Note. It may be mentioned that the representations made in the letter can alternatively be included in the composite representation letter usually issued by the management to the auditor."

- iii. The Authority noted that the auditors were not provided an independent access to Invoice Management System (IMS) database being a live database. The documents outside IMS that is purchase orders, Masters software service agreement, time sheets etc were provided to the auditors by way of hard copies

by the company. In fact, the sales register was provided to the auditors by way of an Excel spreadsheet attached to an email from the company representative. Since these documents were not directly generated by the Auditor from the system, adequate steps were needed to be taken by the auditor to verify the contents of these documents leading to the figures of Sales and Debtors in the final Books of Accounts.

iv. In order to verify the figures of Sales and Debtors, the widely used and time-tested process recommended in the AAS-30 and the Guidance Note 22 is seeking a confirmation of balance from debtors directly by the Auditor. However, the Appellant adopted "alternative techniques" in place of seeking confirmations from debtors. The alternate technique adopted involved verification of the subsequent realisation of the parties. However, this "alternative techniques" was also inadequate as the subsequent realisation of the parties were checked from the bank statements for which again there was no direct confirmation taken by the auditors from the banks.

v. Appellant also submitted that:

"...there has been a history of poor response debtor balances circularized. Pgs 1263 to 1283 of Volume-III-B, MyClient audit working papers support this fact. In view of the above, as per the background and guidance as available under AAS-30 and guidance note on Audit of Debtors, Loans and Advances as above, it was decided by the engagement team that other audit procedures in the form of alternative

procedures as provided under AAS- 30 and the Guidance Note- 22 Audit of Debtors, Loans and Advances as above, instead of confirmation procedures, should be employed. MyClient audit working papers at pg. 1173, Volume-III-B at pg 707 of convenience compilation also documented the rationale for not using confirmations. Hence it is reiterated that because of poor responses to circularisation of confirmations in general, performing alternative audit procedures to confirm existence of debtor balances is not only very much within the requirements of the pronouncements of the Institute as detailed above but also a widely employed and prevalent audit procedure."

- vi. It is not disputed that the Appellant had himself directed the audit team members to stop the practice of obtaining direct confirmation from the debtors.
- vii. In fact, the Appellant stopped the practice of sending confirmation requests to debtors after September 2007. After discarding the practice of verifying debtors balances through direct confirmation, the Appellant should have made sure that at least the alternative technique is followed properly. However, the process of verification of the subsequent realisation of the parties became doubtful as instead of obtaining the bank statements directly from the banks, the auditor relied upon the bank statements provided by the management.
- viii. The debtors formed a significant percentage of the total assets of the company for all these years. The percentage of debtors to the total assets ranged between 24% to 30% of the total assets. In view of this percentage being on a high side, the auditor ought

to have paid special attention to check the veracity of debtors. Thus, it was important for the Appellant to verify the amount of the debtors and their existence. Relying on management's representation and confirmations supplied by the company representatives cannot be taken as the appropriate audit evidence in such circumstances. Guidance Note-22 Audit of Debtors, Loans and Advances of ICAI clearly states that:

"The auditor should obtain from the management of the entity, a written statement regarding recoverability of debtors and loans and advances and their classification for balance sheet purposes. While such a representation letter serves as a formal acknowledgment of the management's responsibilities with regard to debtors, loans and advances, it does not relieve the auditor of his responsibility for performing audit procedures to obtain sufficient appropriate audit evidence to form the basis for the expression of his opinion on the financial information."

- ix. Further, the auditors had got a sample of around 6000 invoices selected for doing verification and out of the same, 560 voices were found to be forged and fabricated. These invoices contained On Standing Project Codes which did not figure in the Satyam Project Repository (SPR) and further these invoices did not have a trace in the ONTIME and PBMS system. The Appellant submitted before the Authority that "an auditor is neither trained nor is required to verify the authenticity of documents during the course of audit. This position is set out under AAS- 4 "Auditor's Responsibility to consider Fraud and Error in an audit of Financial Statements" issued by ICAI." The Authority feels that 560 out of

6000 invoices picked up in the sample being forged, going unnoticed during the audit, certainly raises doubts on the Audit process applied by the Auditor to verify the sales transactions on the basis of supporting documents like these invoices.

- x. As per the SEBI investigation report the company had maintained 2 sets of sales statements: daily statements and monthly statements. The two sets of statements did not match as the monthly statements were apparently manipulated and inflated and were used to prepare the final statements and taken to the final books of accounts.
- xi. The revenues of the company were subsequently found to be inflated over the years (2006-07 to 2008-09) by about 19%.
- xii. Thus, the Appellant had carried out the audit verification procedure as stated above which was not commensurate and appropriate to ascertain the veracity of invoices and the balances of the debtors. The audit engagement leaders and the audit team were aware of the audit verification procedures as mentioned. The audit team used to regularly appraise the Appellant about the progress of the audit, deficiencies, lacunae etc including the above-mentioned audit procedures for verification of invoices.
- xiii. The Auditors cannot wash their hands off the responsibility of certifying the financial statements as true and fair when it was neither true nor fair. The alternate audit practice and procedure,

which was deficient in itself, was followed by the Appellant even after having categorized the sales and debtors as high risk for audit examination.

II. Fudging of accounts in respect of Cash and Bank Balances:

- i. Mr. Talluri Srinivas (M. No. 029864), the Appellant herein, conducted the statutory audit of Satyam Computer Services Ltd. (SCSL or the Company) for the financial year 2007-08 and limited review for the quarters ended June 2008 and September 2008.
- ii. The main allegation in the information case against the appellant is that the Company's accounts have been fudged and the appellant, as the auditor of the said company, has not exercised due diligence and thus guilty of professional misconduct within the meaning of clauses 5 to 9 of Part I of Second Schedule of CA Act, 1949.
- iii. In the information case made out against the appellant, among various other allegations on fudging of accounts of the company, it was alleged that during the period of audit conducted by the appellant, the Cash and Bank balances of the Company were inflated in the Financial Statements in a big way when compared to the actual balances. The cash and Bank balances during the period covered under audit were as under:

<i>Year / Quarter ended</i>	<i>Cash & Bank Balances as per Balance Sheet</i>	<i>Actual Cash & Bank Balance</i>	<i>% of actual balance to the balance in Balance Sheet</i>
31/03/2008	4273.99	136.75	3.2%
30/06/2008	4657.39	118.79	2.55%
30/09/2008	5160.34	139.78	2.71%

- iv. The Director-Discipline, in his PFO, pointed out the above differences and as no satisfactory / convincing explanation came from the appellant, except stating that it is a large scale fraud perpetrated by the management, held the appellant prima facie guilty of professional misconduct under clauses 5 to 9 of Part I of Second Schedule to CA Act, 1949.
- v. The Disciplinary Committee (DC), which has accepted the PFO and heard the case considered the evidence and explanations offered by the parties and made out a detailed report in support of its findings that the appellant is guilty of professional misconduct.
- vi. Briefly, the following are the allegations against and responses of the appellant and findings of the Director (Discipline) in the prima facie opinion.

A. Allegations:

1. That the Appellant was grossly negligent in verifying the Cash and Bank Balances of the Company and certifying them to be true and fair
2. In the statement given under Sec.164 of CrPC by Mr. Ch. Ravindernath, Manager (Audit) and another respondent in the same case, he has admitted that the audit team had relied upon the hard copies of Bank statements provided by the representatives of the Company which were not in the standard format and that direct confirmation was not taken from some of the Banks and the same was done as advised by the team leader (para 23.9 of DC Report), from which it is clear that the Appellant has not followed the mandatory standards of auditing while performing the audit.

B. Responses before the Disciplinary Committee:

The Appellant in his defence, with respect to the aforesaid allegation, submitted in his written submissions dated 12.10.2011, as under:

- (i) The Appellant denied knowledge imputed to him at para 27.1 (para 11.4 of the Opinion); at para 27.6 (para 11.10 of the Opinion) and at para 27.8 (para 11.10 of the Opinion). To the best of the Appellant's recollection at this time, the two sets of confirmations referred to in para 11.4 of the Opinion related to two different

branches of the same bank and were complementary and were not contradictory.

- (ii) It is a matter on the record of the Hon'ble trial court that the audit was carried out based on monthly bank statements and daily bank statements were not produced for the audit by the Company. As daily bank statements were never produced for audit by the management, the need to carry out necessary checks as warranted in this regard would not have arisen as such. Further, the engagement team, at the time of their audit, had no reason to suspect that the Company maintained daily bank statements that reflected different entries from the monthly statements provided to the auditors for the purpose of the audit and they did not suspect that the monthly bank statements provided by the Company were forged. Hence, the discrepancies were never within the knowledge of the audit team and the Appellant denied the knowledge imputed to him in this regard.

- (iii) The allegation that third party confirmations were not taken care and reliance was placed on confirmations received through the Company was incorrect and contrary to the information available on the Hon'ble trial court's record. However, the Appellant would only be able to meet this allegation fully if the documents that

formed the basis for this conclusion drawn by the Director (Discipline) were made available to him.

- (iv) The audit team carried out substantive testing covering fixed deposits and bank balances in addition to compliance testing of the treasury process. Hence, the allegation that cash and bank balances were not verified in great depth was contrary to the information available on the Hon'ble trial court's record and denied.
- (v) As regards the allegation relating to format, omissions, etc. the Appellant would only be able to meet this allegation if the specific documents that formed the basis for this conclusion drawn by the Director (Discipline) were made available to him. As a matter of principle, it was submitted that an auditor is not charged with examining the audit evidence for forgery. As a result, the auditor does not prepare arrays of client documents, to compare their format and how they have changed over the years, in order to look for irregularities, etc.
- (vi) It was a matter on the record of the Hon'ble trial court, that the team had not come across any fraudulent financial reporting and misappropriation of assets and it was the team's impression that the management did not involve in any creative and aggressive accounting

practices and the company had good corporate governance; and that the audit of Satyam was done in accordance with established procedure and standards including in accordance with the firm's methodology by the team members bonafidely, that the audit team satisfied itself as regards the genuineness of the material / records produced by the company for audit, etc. Hence, the knowledge of the Appellant as to serious discrepancies in the balances shown in the Balance Sheet as imputed or assumed was totally absent in this case and the allegation is false.

- (vii) The allegation as to failure to carry out independent checks was contrary to the information available on the Hon'ble trial court's record.
- (viii) As stated above, at the time of audit, the audit of Satyam was done by the audit team bonafidely with no suspicion whatsoever and hence there being no knowledge as imputed relating to serious manipulations in the accounts of the Company, there was no basis for the allegation that the Appellant should have qualified the audit report as not giving a true and fair view with respect to the state of affairs of the company.
- (ix) Based on information available on the Hon'ble Trial Court's record, and as stated at above, the Appellant

denied the allegations made at paras 27.9, 27.10 and 27.11 of his written submissions dated 12.10.2011. Moreover, the allegations at paras 27.9 and 27.10 were inconsistent with each other, in the sense that contents of 27.9 in a way suggested that while FDR certificates were verified, the allegation was more on the failure to carry out independent checks, however, the very next para 27.10 concluded that FDR certificates were not verified by the Appellant.

- (x) The Appellant while concluding his submissions in response to the afore stated allegation, summed up and denied the charges that he is prima facie guilty of professional misconduct falling within the meaning of clauses (5), (6), (7), (8) and (9) Part I of the Second Schedule to the Chartered Accountants Act, 1949 [as amended by the Chartered Accountants (Amendment) Act, 2006]. As regards, the charge of 'Other Misconduct' under Section 22 read with Section 21 of the Chartered Accountants Act, 1949 [as amended by the Chartered Accountants (Amendment) Act, 2006], as stated elsewhere in this response, the Appellant submitted that there was no basis whatsoever for a charging him for 'Other Misconduct'.

- (xi) The Appellant in his letter dated 29th June 2012, inter-alia, dealt with the nature and extent of audit verification in the area of cash and bank balances which is as under:

"...The audit working papers, maintained in the electronic audit file in "My client" as stated elsewhere, bear evidence to the nature and extent of work carried out – detailed audit programs / steps covering all the aspects of audit and the record of work carried out in relation thereto by the audit team. The audit steps, covering compliance testing (tests of controls) of treasury process (of which cash and bank balances is a part) as documented therein included – understanding, evaluating and documenting transaction flow and control activities; understanding and evaluating internal control components at the management unit / business process level; understanding and evaluating control activities; confirming that evidence is available for the whole period...

The audit steps, covering substantive testing (detailed verification of transactions), of cash and bank balances, as documented in the My Client audit file, among others included – testing deposits held with banks; considering financial condition of depositories; testing bank reconciliation; confirming selected bank accounted and special arrangements; testing accounts where there is no confirmation; scanning year end bank reconciliations; testing mathematical accuracy of cash transactions; testing cut-off cash transactions; considering deposits recorded before year end; considering cheques released after year end; testing restricted cash; testing cash on hand; identifying

arrangements with related parties; verifying translation of foreign currency accounts.

As part of its controls testing, the engagement team conducted a review of Satyam's processed for placing fixed deposits. This testing included comparing a number of FDRs with the Company's original correspondence with the banks to place the fixed deposits. The audit team also tested the controls under which, on a quarterly basis, a Satyam officer in the treasury department prepared an FDR schedule and verified it with bank confirmations for accuracy. At the time, based on the Satyam process document "Procedure for Investment in Fixed Deposits", the audit team understood that in order to close or cancel a fixed deposit, Satyam would need to return the original FDR to the bank, duly cancelled, after obtaining the requisite signatures from the authorized signatories. This provided further comfort that the team's inspection of the FDRs provided evidence that the balances were genuine and in existence.

The normal procedures undertaken by the audit team included – (1) verification of current account balances in Satyam's cash book against those balances in the BRS; (2) verification that the bank account balance that Satyam included in the BRS matched the balances listed on the bank account statement sent by the bank to Satyam in the normal course of business; (3) checking the statement balance to a confirmation certificate; and (4) examining the BRS to confirm that differences between the current account balance and bank account statement in the BRS had been reconciled by the Company i.e. that there were specific identified transactions, such as cheques deposited but not yet cleared,

for the reconciling items. Such procedures are typical and customary audit procedures and did not reveal any matters that caused the engagement team to believe that the current account balances included in the financial statements, were not properly supported by the reconciliation. The Company's BRS procedures rely on the authenticity of the monthly bank statements used in the verification process. The audit team did not have a reason to suspect the statements provided by Satyam were not genuine.

As regards two sets of bank confirmations, as already stated in his previous submission, the Appellant reiterates that there were no two sets of confirmations from the bank for the same year with respect to the same bank as alleged and the two sets of confirmations referred in para 11.4 of the Opinion related to two different branches of the same bank and were complementary and not contradictory. Further, in the above background and based on the documents made available with this submissions, the allegation that third party confirmations were not taken care and reliance was placed on confirmations received through the Company is incorrect and contrary to record. As daily bank statements were never produced for audit by the management, the need to have carried out necessary checks as warranted in this regard would not have arisen as such. Further, the engagement team at the time of their audit, had no reason to suspect that the company maintained daily bank statements that reflected different entries from the monthly statements provided to the auditors for the purpose of the audit and they did not suspect that the monthly bank statements provided by the company were forged. Hence, the discrepancies were never within the

knowledge of the audit team and the Appellant denies the knowledge imputed to him in this regard.

It is submitted that external confirmations, be it in the area of bank balances, accounts receivable balances, stocks held by third parties, loans from lenders, accounts payable balances, etc. has always been and continues to be a weak link, as a means of obtaining audit evidence, in the process of gaining assurance over such balances by the auditors. Since, the effectiveness and efficacy of this process solely rests on third parties, who do not consider it as their duty to respond or on whom there is no mandate to conform compliance, the response rate ranges from poor to nil and often the auditors are left with no option but to resort to alternative audit procedures to confirm existence of such account balances. As regards the allegation relating to format, omissions, etc. as already stated in his previous submission, it is reiterated by the Appellant that an auditor is not charged with examining the audit evidence for forgery. As per para 19 of Auditing and Assurances Standard (AAS) 4 – "The Auditor's responsibility to consider Fraud and Error in an Audit of Financial Statements" issued by ICAI, "..... an audit performed in accordance with auditing standards generally accepted in India rarely contemplate authentication of documentation, nor are auditors trained as, or expected to be, experts in such authentication." As a result, it is submitted that the auditor does not prepare arrays of client documents, to compare their format and how they have changed over the years, in order to look for irregularities, etc."

C. DC's Findings & Conclusions:

- a) The DC took into account the deposition made by the DIG, CBI, who was the Investigating Officer in the Company's case and noted that the appellant relied on the balance confirmations furnished by the management and did not seek any confirmation of balances from the Banks.

- b) The DC further noted that as per the statement given by CA Ravindernath under Section 164 of CrPC, who was another accused professional from the appellant's firm, the relevant portion in context with the allegation under question is as under:

"At Satyam Computer Services Ltd. we have relied on the hard copies of bank statements provided by the representatives of the company. Moreover, on many occasions we have received the bank balance confirmation letters through the company and not in our standard format. At any point of time at M/s. Satyam Computer Services Ltd. we have not viewed the internet to ascertain the bank balances although the company had internet banking facility. The same was done as advised by the engagement leader."

- c) The DC examined the witnesses from the Banks viz. BNP Paribas, ICICI Bank, Bank of Baroda, HSBC, HDFC Bank and Citi Bank, who have confirmed that the confirmation of balances produced by the DC (which were furnished by the appellant before it) were not signed by them. The Banks

have further confirmed to the DC that they have never received any requests from the appellant / firm seeking confirmation of Balances. They have further confirmed that even the stationery used for the confirmation of balances was not of their respective Banks.

d) The DC noted that the Appellant has no record of correspondence for the balance confirmations sought from Banks and confirmations received.

e) The DC noted that the Appellant had not followed the applicable auditing standards and guidance notes while carrying out the audit of cash and bank balances component. It is apparent that the appellant was aware that the standard auditing practices were not followed while carrying out the audit of cash and bank balances and in spite of being aware of it, did not carry out due diligence which was warranted in those circumstances and which is expected from a professional of his stature. As per the requirements of Schedule VI to the Companies Act, 1956, the names of bankers other than scheduled banks and balances lying with each such banker on current account and the maximum amount outstanding during the year from each such banker has to be given categorically in the Balance Sheet of the company which in the instant case was not complied with by the company and the Appellant

as the signing and engagement leader did not bring out the same in his audit report.

- f) The DC noted that the company had listed out the names of non-scheduled banks having branches outside India but failed to understand as to why the details of the non-scheduled banks in India were not mentioned in the Balance Sheet of the Company as on 31.03.2008. As the engagement leader of the audit team, he was required to bring to the attention of the audit committee any significant findings which had a material impact on the financial statements of the Company. As the leader of the audit team, he was also required to ensure compliance with the relevant statutory requirements which in the opinion of the DC, he has totally failed to do so.
- g) The DC also noted that the Appellant did not comply with the provisions of SA 500, Audit evidence, with respect to external evidence vis-à-vis internal evidence and parameters as listed in SA 505, External Confirmations, with respect to reliability of evidence received through external confirmation. Further, in the view of the DC, the Appellant as the signing partner ought to have discussed with the team members, the audit findings and other matters affecting the financial information of the components and accordingly ought to have decided the supplemental / additional tests of the records or the

financial statements of the components which were felt necessary in those circumstances. In the view of the DC, accordingly, the Appellant has failed to carry out his required role as the signing partner and the engagement leader of the audit team in a manner in which it was warranted and completely failed in carrying out due diligence exercise and thus was grossly negligent in the conduct of his duties as the signing partner at the relevant time.

h) Accordingly, the DC is of the opinion that the Appellant is guilty of professional misconduct falling within the meaning of Clauses (5), (6), (7), (8) and (9) of Part I of the Second Schedule to the Chartered Accountants Act, 1949 as amended by the Chartered Accountants (Amendment) Act, 2006.

D. Appellate Authority's Observations & Decision:

After careful consideration of the allegations made in the information case, the appellant's responses filed before the DC, the DC's findings and conclusions and the submissions / arguments made before us, we are of the following view:

1) It is a fact that there are huge differences between the Cash and Bank balances as shown in Balance Sheets as at 31.03.2008, 30.06.2008 and 30.09.2008 and the actual

balances declared by the management of the company and confirmed by the forensic audit team.

- 2) The Appellant has not denied the above stated differences between Balance Sheet balances and the actual balances before the Director (Discipline), DC and before the Appellate Authority.
- 3) The Appellant has not provided any credible evidence before the DC and before this Authority that the fudging of cash balances could not be detected during the course of their audit.
- 4) It is a fact that all the witnesses from Banks have confirmed before the DC that they have not received any requests for confirmation of balances and the balance confirmations produced by the Appellant before the DC were not issued by them. The Appellant has not countered these statements, which means that he has accepted that the balance confirmations were not genuine.
- 5) The Appellant, except stating that it is a large scale fraud perpetrated by the management in a systematic manner over many years, which the audit could not detect in the normal course, has not brought out any credible evidence/material to negate the findings and conclusions of the DC.

In the given circumstances and facts and after careful consideration of the submissions made by the appellant and the Respondent (ICAI), we are of the considered view that the DC has correctly held the Appellant guilty of Professional Misconduct under clauses (5) to (9) of Part I of Second Schedule to CA Act, 1949 in respect of verification cash and Bank balances of the company.

III. Discrepancy in TDS:

Appellant in his Written Statement to the Authority has submitted:

- i. There are no mandatory standards issued by ICAI dealing with audit of income taxes.
- ii. He has submitted audit working papers in respect of audit of income taxes.
- iii. Income tax return was verified by the auditors.
- iv. The audit team carried out verification of TDS certificates on a test basis. It was re-iterated that there is no mandate which requires the auditor to carry out 100% verification of Form 16A. It is neither a customary practice of auditors nor it is practicable to carry out such verification procedure, considering the voluminous nature of transactions and the related certificates.

- v. Under the provisions of the Income Tax Act, 1961, the evidence relating to TDS including certificates can be furnished subsequently during the assessment proceedings and within two years of filing the concerned income-tax returns under Section 139 of the Income-Tax Act, 1961. Hence any difference between the two cannot be a cause of concern and raise any alarm for the auditor. The DC also ignored that fact that the income tax return as produced in audit, bearing the official stamp of the tax department, contained taxes as reflected in the books of account, which subsequently on investigation turned out to be fabricated. The audit team had no basis or reason to question the veracity of the return.

- vi. Form 26AS was not in existence at the relevant time as the Section under which it was introduced i.e. Section 203-AA of the Income Tax Act, 1961 was amended and was made effective from 01.04.2008. This fact of 26AS coming into effect from the financial year beginning 01.04.2008 is also corroborated by the fact that on the TRACES portal of income tax department, the earliest year for which 26AS available is Assessment year 2009-10.

- vii. Auditors are not involved in the computation of income tax, preparation and filing of tax returns, handling of assessment proceedings and appeals at Satyam. It is a matter of record that the Appellant and his team carried out the tax audit under

Section 44AB of the Income tax Act, 1961 for the Assessment year 2008-09.

Hence, it is argued that the Appellant was vigilant and he had used all available resources to rectify the TDS deductions during relevant period.

In response to the above submissions of the Appellant, the Respondent herein has reiterated that:

- i. The Disciplinary Committee noted the huge differences in the actual tax deducted at source by the banks on the interest on FDRs and the TDS on interest income and actual accrual/payment basis, as was reflected in the balance sheet of the company under the head TDS on interest income.
- ii. The Committee further noted that the Appellant had not verified income tax returns, assessment orders, TDS certificates to cross check the TDS on the interest accrued.
- iii. The Committee also noted that Satyam had claimed lesser credit for the TDS in its income tax returns as against the TDS accounted for in the financial statements which substantially varied.
- iv. The Committee had noted that during the examination/cross-examination of the Appellant himself when the Committee

inquired from him as to how he had worked out the amount of Advance Tax, TDS and whether the entire TDS reflected in the balance sheet had been claimed by the company, the Appellant replied that the same needs to be checked.

- v. The Appellant confirmed that the Company had claimed the TDS to the extent they had certificates on hand and when the Committee inquired from the Appellant about the tax determined under Section 143 (1) of the Income Tax Act that must have been paid subsequently after receiving the assessment order and as to how he had verified the tax payment, the Appellant submitted that he did not recollect and would check and would thereafter confirm.
- vi. The Appellant confirmed that as against figure of TDS shown on 31.03.2007 of Rs. 37.2 crores, the amount which was actually claimed by Satyam in the return was a sum of Rs. 16.63 crores. The Committee was thereafter informed that for around Rs. 21 crores there was no TDS certificate. The Appellant responded that there was a discrepancy between the amount shown in the books of account as against the amount claimed the income tax return which he was not able to understand.
- vii. The Appellant further confirmed to the Committee that the TDS certificates were verified on test basis and that hundred percent of the TDS were not verified.

viii. The Committee also noted that certain bank such as ICICI Bank and HDFC Bank did not hold any FDRs from the company as of 31 March 2007, 31 March 2008 and the quarter ending December 2008.

21. Accordingly, in our view, the Appellant has not satisfactorily given any explanation of the huge difference between the tax deducted as shown in the books of Satyam and the actual TDS availed and for which TDS certificates were available. Therefore, he was negligent to reconcile the TDS as per the books of Satyam and the actual TDS availed and for which TDS certificates were available. He has been negligent in performance of his duties as an Auditor and the Disciplinary Committee has rightly found him guilty on this account. We further agree with the conclusion drawn by the Committee that the audit was assigned by Satyam to 'Price Waterhouse, Bangalore' and the Appellant has wrongly signed the Accounts on behalf of 'Price Waterhouse'.
22. Similarly, the objection regarding PFO has been taken before Hon'ble High Court of Delhi, but no truth was found in the said allegation. Thus, the PFO and subsequent disciplinary proceedings were conducted in accordance with law and the due process was followed by the Respondent Institute. Further the Respondent is right that MDIT was not the basis of the conclusions of Committee and quorum was complete in every meeting of the DC as its members can

participate through teleconferencing and the proceedings were concluded in accordance with the principle of natural justice.

PUNISHMENT:

23. On the punishment, it was noted by the Disciplinary Committee that:

On the date of hearing fixed for passing orders on 13.10.2013 at New Delhi, the Appellant was present in person and further gave his submission on the finding of the Committee as under:-

- a. *"There was no complaint or concerns from any quarters, internal or external, like Audit Committee, Board of Directors, Regulators, Analysts etc. questioning the financial performance, control systems of the Company, integrity and ethics of the management at Satyam.*
- b. *The Respondent submitted that in large audits of the size of Satyam, a signing member has to necessarily rely on the team of trained resource in so far as the detailed audit work is concerned. The audit teams were duly supported by specialist in the areas systems audits, taxes, etc.*
- c. *As an incoming auditor for 2007-08 audits, basis for relying on opening balances stood already established, no concerns encountered in the audit of 2007-08 also to have questioned the veracity of opening balances.*
- d. *He had carried out the audit in the same manner as to how other audits are carried out, applying the firm's methodology as per generally accepted auditing standard.*
- e. *Audit was carried out in an environment (say for example the practice relating to balance confirmations by banks and debtors) by applying practices and audit procedure prevalent across the profession.*

- f. *As came out during the investigation by CBI, SEBI and SFIO etc., that Satyam was a monumental and complex fraud that involved collusion, fabrication of records and high levels of deception overriding established controls and procedures by senior management. The fact that it required the investigative skills of an agency like CBI to unearth the nature and gamut of falsification at Satyam should be viewed as a testimony to the complex nature of this unprecedented fraud.*
- g. *The Respondent stated that he is a victim of a well-orchestrated fraud by the Satyam management."*

The observation of the Committee on the above submissions is as under:

"15. The Committee considered the written oral submissions of the Respondent and was of the opinion that the Respondents could not show to the Committee as to what was not duly appreciated by the Committee and as to how the evidences have not been duly extended by the Committee. The Committee further noted that the report of the Committee has comprehensively brought out as to how the Respondent grossly failed to discharge his duties as the statutory auditors of the SCSL for the year 01.04.2007 to 31.03.2008 and quarters ending on 30th June 2008 and 30th September, 2008. The Committee also noted that this case involves serious gross negligence on the part of the Respondent which has led to fudging of the accounts for several years of a very reputed company which in turn caused severe loss to various stake-holders and the public at large and the corporate image of the country has been maligned to a great extent. Accordingly, the Committee is of the view that though the Respondent based his submissions on working papers submitted by him at the time of hearing, yet he failed to establish that he had in fact exercised due

diligence and was not grossly negligent in conduct of his professional duties.

16. Keeping in view all the circumstances as aforesaid, the material on record, representation of the Respondent and also the very serious nature of professional misconduct, the Committee is of the view that even after cross-examination of the witness(s), the Respondent failed to bring on record that he exercised due diligence and was not gross negligent in conduct of his professional duties. Hence, the Committee is of the view that the interest of justice would be met if the name of the Respondent is removed from the register of members permanently and he be also called upon to pay a fine of Rs. 5 Lac to be deposited with the ICAI within 30 days of the receipt of the present order by him."

24. The Ld. Counsel for the Appellant has argued that the Committee has been quite harsh in directing removal of name from the Register of Members and the punishment given was not commensurate with the alleged violation.

25. On the other hand, Ld. Counsel for the Respondent has argued that the Committee has given the appropriate punishment and the Appellant does not deserve any leniency.

26. In the above background our considered view on the quantum of punishment is as under:

- i. It is pertinent that the Appellant was incharge and signing partner on behalf of the Price Warehouse for a brief period and

thus could not have been privy to the size and scope of the fraud that was perpetuated upon the shareholders amongst other persons.

- ii. It is also to be considered that in 2009 when the fraud was disclosed, the Appellant was a young professional, who was aspiring for success in his career and would not have questioned or doubted the word of the key managerial personnel of Satyam, who were persons of immense stature at that time. At best, the Appellant appears to be guilty of having trusted senior officials who were well aware of their ill actions and intentions instead of exercising professional scepticism required to identify potential risks, errors or fraudulent conduct.
- iii. In our view, the Appellant has suffered enough penal consequences, including having suffered incarceration for a substantial period of time. The present proceedings have also been pending since 2014 , i.e., a period of over one decade, during the course of which the Appellant has suffered both professionally, financially and otherwise. Thus, in our view the Appellant has suffered the consequences of his poor judgement and actions and now in the twilight years of his life, he ought to be allowed some relief from the rigors of the present proceedings.

27. Considering the facts and circumstances of the case, we are of the view that the ends of justice would be met if the name of the

Appellant be removed from the Register of Members for a period of 10 years in place of permanent removal. Thus, the findings and conclusions of the proceeding drawn by the Disciplinary Committee vide order dated 01.02.2013 are upheld but as far as punishment is concerned, the appeal is partly allowed and the punishment order dated 21.10.2013 passed by the Disciplinary Committee, The Institute of Chartered Accountants of India is hereby modified to the extent that the fine of Rs. 5.00 Lakhs is upheld, and his name shall be removed from the Register of Members for a period of 10 years from the date of publication of removal Notification in the Gazette of India by the Respondent.

28. All interim orders, if any are vacated. No order as to cost and accordingly the Appeal is disposed of.

Justice Talwant Singh
Chairperson


Rakesh Mohan
Member

Sandip Garg
Member

Pankaj Tyagee
Member

Anil Satyanarayan Bhandari
Member

CERTIFIED TO BE TRUE COPY


REGISTRAR
APPELLATE AUTHORITY
ICAI BHAWAN, I.P. MARG, N. DELHI