The Institute of Cost Accountants of India

Board of Discipline u/s 21A of The Cost Accountants Act, 1959

Final order number: ICMAI/BOD/2026/44

Complaint number	Com/21-CA(102)/2021
In the matter of	Canbank Factors Ltd. [Complainant] Vs. Shri Sativada Venkat Rao (M/3359) [Respondent]
Date of Hearing	As per records and order sheet
Date of order	19th August, 2026

CORAM:

1	Shri P.K. Pujari, IAS (Retd)	Presiding Officer
2	CMA Avijit Goswami	Member

PRESENT IN HEARINGS

1	CMA(Dr) Hemant Kumar Sindhwani	Director (Discipline)

Brief of the Case

1. The Disciplinary Directorate is in receipt of a complaint in Form I dated 8th February, 2021 in triplicate along with the prescribed complaint fee of Rs 2950/- (inclusive of GST) from Canbank Factors Ltd. (hereinafter referred to as the "complainant"), against Shri Sativada Venkat Rao (hereinafter referred to as the "respondent") bearing membership number 3359, containing certain allegations against the respondent falling under various provisions of the Cost Accountants Act, 1959.

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2. The complaint, comprising pages 502 including annexure, primarily contains allegations relating to respondents alleged failure to report suspected fraud, exercise due diligence, obtain sufficient audit evidence, verify material transactions including GST input tax credit and factoring transactions, examine statutory records and Board approvals, and disclose material facts while conducting the Cost Audit of Metrochem API Private Limited for the financial year 2019-20.The particulars of the complaint, as set out in Form I, are reproduced herein below verbatim:

FORM I

[See sub-rule (1) of Rule 3]

1	Name of the Complainant: (With membership number, if member of Institute of cost Accountant of India)	Ramesh Kurati, S/o Sri Chittibabu Kurati(Ahmedabad Branch head of Canbank factors Limited and officer)
2	Name of the member/ firm Against whom complaints is being made: (with membership Number/ registration number of the firm, if Known)	Reg. No. : 100340 CMA Sativada Venkat Rao (BCOM, FCMA) (M/3359)
3	Latest address of the complainant for communication	Registered Office: 67/1, Kanakapura Main Road Basavangudi, Bangalore Karnataka 560004. Email ID- info@canbankfactors.com Branch at: Address: No. 303, 3rd Floor "Shivalik 5", Near Mahalaxmi Cross Road, Paldi, Ahmedabad-380007.

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		E-mail ID- canfact.ahm@canbankfactors.com
4	Last Available Professional address of the member or the firm against whom the complaints is made	7-1-302/1, B. K. Guda, Sanjeeva Reddy Nagar, HYDERABAD- 500038, Tele : 9160337973 Email: sativadavr@gmail.com
5	Particulars of allegation(s) Serially numbered together with corresponding clause/part of the relevant schedule(s), or particulars of allegation(s) serially numbered together with clause /part of the relevant scheduled(s) under which the alleged acts commission or omission or both would fall.	Enclosed as annexure A/1 Cost Auditor for Metrochem API Private Limited for FY 2019-20
6	Particulars of evidence(s) adduced in support of the allegation(s) made	Enclosed
7	Name(s) of person who have knowledge of the facts of the case	1. Mr. Venkateshwara Rao Nandepu (DIN: 00092757) 2. Ms. Veera Venkata Rama Vijaylakshmi Nandepu (DIN: 00092882) 3. Mr. Nalla Surya Prakash Rao (DIN: 00092929)

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		4. Ms. Nalla Hymavathi (DIN: 00093000) (All directors of Metrochem API Private Limited CIN: U24239TG2002PTC039223) 5. Ms. Nalini Sadhana Ramathnaidu (Pan No: BUAPR9466A), Company Secretary of Metrochem API Private Limited 6. Mr. Viajyganesh Gopisetti, (CFO of Mterochem API Private Limited, E-mail id: vijayganesh.gopisetti@matroapi.com 7. Mr. Yerra Sudhakar, S/o Late Satyanarayan, Age 44 years, R/o 8-8-15/29, Dwarkamayee colony, Hyderabad-500037 8. Mr. Ganeshh, GM Finanace of Metrochem API Private Limited 9. Mr. Rajesh Karicherla, HR head of Metrochem API Private Limited

3. The complainant has annexed with his complaint, an annexure (Attachment-A/1) containing particulars of allegations and attachments numbered from A/1 to A/17 containing evidences in support of the allegations made. The allegations of the complainant, is reproduced hereunder:

Quote

<u>Grievances against the CMA Sativada Venkat Rao in the capacity of Cost Auditor for FY 2019-2020 for Metrochem API Private Limited</u>

(A) **THE COST AND WORKS ACCOUNTANTS ACT, 1959**
THE SECOND SCHEDULE [See sections 21(3), 21B(3) and 22]
<u>PART I – PROFESSIONAL MISCONDUCT IN RELATION TO COST ACCOUNTANTS IN PRACTICE:</u>

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Clause 5: fails to disclose a material fact known to him in a cost or pricing statement, which is not disclosed in a cost or pricing statement but disclosure of which is necessary in making such statement where he is concerned with such statement in a professional capacity;

Clause 6: fails to report a material misstatement known to him to appear in a financial statement with which he is concerned in a professional capacity;

Clause 7: does not exercise due diligence, or is grossly negligent in the conduct of his professional duties;

Clause 8: 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.

(B) Companies (Audit and Auditors) Rules, 2014 and Companies (Audit and Auditors) Amendment Rules, 2015 dated 14th December, 2015: Section 143(12) read with Rule 13 (5)

"(5) The provision of this rule shall also apply, mutatis mutandis, to a Cost Auditor and a Secretarial Auditor during the performance of his duties under section 148 and section 204 respectively."

(C) Companies (Cost Records and Audit) Rules 2014, Sub-rule (7) of Rule 6 along with Companies (Cost Records and Audit Amendment Rules), 2014 and 2016,

(D) Companies Act 2013, sub-section (12) of section 14

S. No	Disclosure requirement	Particulars/ Comment	Relevant Section	Contravention
1	COST AUDITOR S REPORT:	There are no qualifications or reservations or adverse remarks in the Cost Auditors Report which require any clarification/ explanation.	Companies (Cost Records and Audit) Rules 2014, Sub-rule (7) of Rule 6 along with Companies (Cost Records and Audit Amendment Rules), 2014 and 2016	The definition of fraud as per Section 447 of the 2013 Act are similar, except that under Section 447, fraud includes 'acts with an intent to injure the interests of the company or its shareholders or its creditors or any other person, whether or not there is any wrongful gain or wrongful loss.

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				FAQ's: Is there any obligation on the part of cost auditor to report offence of fraud being or has been committed in the Company by its officers or employees? Sub-rule (7) of Rule 6 of the Companies (Cost Records and Audit) Rules 2014 states that "the provisions of sub-section (12) of section 143 of the Act and the relevant rules made thereunder shall apply mutatis mutandis to a cost auditor during performance of his functions under section 148 of the Act and these rules". As per sub-section (12) of section 143 of the Companies Act 2013, extract of which is given above, it is obligatory on the part of cost auditor to report offence of fraud which is being or has been committed in the company by its officers or employees, to the Central Government as per the prescribed procedure under the Rules. As per the proviso to above sub-section, it has been stated that in case of a fraud involving lesser than the specified amount, the auditor shall report the matter to the audit committee constituted under sec 177 or to

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				the Board in other cases within such time and in such manner as may be prescribed.
2	Disclosure of details of establishment of vigil mechanism (Page No. 70)	Management disclosure in Directors report	-	WHISTLE BLOWER POLICY: The Company has established a vigil mechanism and accordingly, formulated a Whistle Blower Policy to provide mechanism for directors and employees of the company to report their concerns about unethical behaviour, actual or suspected fraud or violation of the company's code of conduct or ethics policy. This mechanism also provides for adequate safeguards against victimization of director(s) / employee(s) who avail of the mechanism and also provide for direct access to the Chairman of the Company in exceptional cases. **<u>During the year no complaints has been received.</u>**
3	Disclosure of accounting policies, change in accounting policies and changes in estimates explanatory	2. SIGNIFICANT ACCOUNTING POLICIES: (2) (o) Fraud and cheating criminal complaint filed Can bank factors limited which is	Date of signing board report 18/09/2020	Just the afterthought, as the company mentioned the concocted story, as company has already mentioned in the whistle blower policy that there is no fraud between 01.04.2019 and 31.03.2020 CanBank Factors Limited is banker to Metrochem API

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	(Page No. 136)	neither a lender nor banker to the company, has made a false claim of Rs. 6.25 crores on 10th October, 2019 based on factoring of fake invoices of P Praful and Company Agency India Private Limited one of the supplier of the company. Company has denied the same as mistake done by Can Bank Factors and at the same time company has filed a criminal case against Can Bank Factors, Mr. Sohan Singh assistant vice president of Can Bank Factors, P Praful and Company Agency India Private Limited, Mr Neel P Bhalakia director of P Praful and Company Agency India Private Limited and one of the employee of the company, P		Private Limited, as the company had execution of Authorisation letter (AL) from client and undertaking letter (UTL) from Metrochem API Pvt. Ltd dated 05.11.2015 and 24.04.2018. **Compliance of "The Factoring Regulation Act 2011":** 1) **Section 7**: Assignment of receivables: Notification of assignment is enclosed with all the bills 2) **Section 8**: Canbank Factors Limited had served the notice of assignment to the company in compliance of section 8 3) **Section 19**: Canbank Factors Limited has registered the charge with CERSAI for Metrochem API Private Limited

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		Praful and Company Agency India Private Limited not supplied any material against above said invoices or claimed amount as per records of the company. The complaint filed with central crime station is under consideration at court of Hon'ble XII Addl. Chief metropolitan magistrate at Nampally, Hyderabad.		
4	Companies (Audit and Auditors) Rules, 2014 and Companies (Audit and Auditors) Amendment Rules, 2015 dated 14th December, 2015		Section 143(12) read with Rule 13 of the Companies (Audit and Auditors) Rules, 2014	Reporting of frauds by auditor and other matters: (1) If an auditor of a company, in the course of the performance of his duties as statutory auditor, has reason to believe that an offence of fraud, which involves or is expected to involve individually an amount of rupees one crore or above, is being or has been committed against the company by its officers or employees, the auditor shall report the matter to the Central Government.

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<table>
<tr>
<td>5</td>
<td>GST benefit (input credit) of the default bills</td>
<td>In the meantime, we are verifying from the concerned regulatory authorities to verify the GST records of the concerned company (Metrochem API Private Limited) to safeguard the public money</td>
<td>The GST input credit on the defaulted bills to the tune of Rs. 95,32,800</td>
<td>Auditor is duty bound to check whether company has taken the GST input credit of the defaulted bills. The details of GST credit as follows:
<table>
<tr><th>S. No</th><th>Invoice No</th><th>Invoice amount</th><th>GST Amount</th></tr>
<tr><td>1</td><td>HY 1900007</td><td>2,10,51,200</td><td>32,11,200</td></tr>
<tr><td>2</td><td>HY 1900012</td><td>2,10,51,200</td><td>32,11,200</td></tr>
<tr><td>3</td><td>HY 1900013</td><td>1,07,97,000</td><td>16,47,000</td></tr>
<tr><td>4</td><td>HY 1900014</td><td>47,96,700</td><td>7,31,700</td></tr>
<tr><td>5</td><td>HY 1900015</td><td>47,96,700</td><td>7,31,700</td></tr>
<tr><td></td><td>Total</td><td>6,24,92,800</td><td>95,32,800</td></tr>
</table>
</td>
</tr>
<tr>
<td>6</td>
<td>Not taking in to account Factoring Transaction between</td>
<td>Total 138 transactions amounting to Rs. 62.57 Crores and received from Metrochem API</td>
<td>Prepared books of accounts not per Accounting Standards</td>
<td>Factoring Transaction with Canbank Factors Limited :- Secured loan of Canbank factors Limited not shown in books of accounts of Metrochem API Private Limited between Year</td>
</tr>
</table>

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	year 2015 and 2020	Private Limited directly to Canbank Factors Limited Rs. 56.32 Crores		2015 and Year 2020 All the transaction are backed by valid Audit trail, registration of CERSAI and compliance of "The Factoring Regulation Act 2011"
7	Board resolution by Metrochem for executing of undertaking letter and authorization letter			Auditor supposed to check and see the board resolution for executing of UTL/ AL along with assignment stamp on all the purchases from P. Praful between 2015 and 2019 (total 138 transactions)
8	Purchase Invoices of Metrochem API Private Limited: Assignment clause and properly stamped.	Auditor should consider the assignment clause and consider the same as security of the factoring company keeping in mind the entry in CERSAI (central register of Central Government) for the transaction between Year 2015 and 2020.	Section 19 of The Factoring Regulation Act, 2011	Charged created in central register: CERSAI created on company (Metrochem API Private Limited)
9	No fraud on part of Canbank Factors	Subsidiary of Canara Bank and registered NBFC Shareholding:		Canbank Factors Limited requested the regulator to please note that not even a single lapse have noticed in the

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	Limited	Canara Bank (70%) SIDBI (20%) Andhra Bank (10%)		documentation and proper due diligence conducted by our Ahmedabad branch officials in the matter. We have all the relevant evidences to prove our bonafide in the whole transaction along with valid audit trails. We assure the regulator and available to show the evidences and paperwork done while availing the factoring facility and get the invoices factored. We understand that because of the lapses done by the concerned Chartered Accountants, material loss occurred to us and if necessary steps not been taken out by regulator against the concerned Chartered Accountants then irreparable injury will cause to us and above all loss of public money. We ready to prove our bonafide in the above mentioned matter and ready to submit any other evidence/ documents required by regulator. Complete factoring transaction enclosed as Annexure A/2

Unquote

4. The above complaint was scrutinized and was registered in terms of Rule 5 of the Cost and Works Accountants (Procedure of Investigation of Professional and Other Misconduct and Conduct of Cases) Rules, 2007 and the same was proceeded with in the manner as prescribed in Chapter III of the Rules and was registered by the Disciplinary Directorate by giving a unique number, Complaint No. Com/21-CA(102)/2021.
5. The complaint dated 8th February 2021 was duly forwarded to the Respondent vide Letter No. G/DD/Com-CA(102)/(M-3359)/2/04/2021 dated 1st April 2021, whereby the

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Respondent was called upon to submit his written statement in terms of Rule 8(3) of the Cost and Works Accountants (Procedure of Investigations of Cases of Misconduct) Rules, 2007, within 21 days from the date of service of the notice. The Respondent, vide email dated 15 April 2021, sought an extension of 30 days for submission of his written statement, citing, inter alia, the voluminous nature of the complaint and his advanced age. The said request for extension was duly considered and acceded to. Thereafter, vide email dated 12 May 2021, the Respondent sought a further extension of 60 days, stating that the delay was occasioned by the lockdown restrictions imposed in the wake of the second wave of the COVID-19 pandemic. Subsequently, the Respondent submitted his written statement vide email dated 31 May 2021 at 6:36 P.M. The written statement so submitted comprised only one page. The same is reproduced here in below verbatim.

Quote

My response to complaint No.com/21-CA(102)/2021-CanBank Factors Ltd [complainant] Vs. Shri Sativada Venkat Rao{M/3359} [Respondent]

I, CMA Sativada Venkat Rao M.No3359 Cost Auditor has certified and submitted the Cost Audit Report to the Board of Directors of M/s Metro Chem API Pvt .Ltd. The complainant has not attached copy of the Cost Audit Report based on which complaint filed against me. It is well settled legal principle that duty of the complainant is to submit copy of the document i.e Cost Audit Report on which they lodged complaint, to prove their case.

Allegations made in the complaint are not based on facts and figures mentioned in the cost audit Report but quoted various provisions of Cost Audit Rules, also not linked each allegation to concerned paras of the Cost Audit Report. Hence I deny all the allegations made in the complaint.

I request The Director (discipline) to kindly consider the above facts and exonerate me from allegations mentioned in the above complaint.

Thanking you
Yours sincerely
CMA SATIVADA VENKAT RAO
M.No3359

Unquote

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6. The written statement dated 31st May, 2021 submitted by the Respondent was forwarded to the Complainant vide letter No. G/DD/Com-CA(102)03/06/2021 dated 1st June, 2021 followed by 1st reminder dated 29th November, 2021, 2nd reminder dated 16th August 2023 calling upon him to submit a rejoinder in terms of Rule 8(4) of the Cost and Works Accountants (Procedure of Investigations of Professional and Other Misconduct and Conduct of Cases) Rules, 2007.

7. The Complainant, vide email dated 1st September 2023, submitted a Rejoinder dated 29th August 2023 addressed to the Disciplinary Directorate of the Institute of Chartered Accountants of India (ICAI). In this regard, vide Letter No. G/DD/Com-CA(102)/06/09/2023 dated 12nd September 2023, the Complainant was apprised that the Institute of Chartered Accountants of India and the Institute of Cost Accountants of India are separate statutory bodies, governed by their respective enactments, rules and regulations, and that the disciplinary proceedings in the present matter are governed by the Cost Accountants Act, 1959 and the rules framed there under. Accordingly, the Complainant was requested to submit the Rejoinder duly addressed to the Disciplinary Directorate of the Institute of Cost Accountants of India. Thereafter, the Complainant submitted the Rejoinder dated 29th August 2023, duly addressed to the Disciplinary Directorate of the Institute of Cost Accountants of India, which was received on 13th September 2023. The Rejoinder comprised three pages. The Rejoinder submitted by the Complainant is reproduced herein-below verbatim:

Quote

THE DISCIPLINARY DIRECTORATE
THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
CMA BHAWAN, 12, SUDDER STREET KOLKATA-700016

Madam/ Dear Sir,

Sub: Complaint No. Com/21-CA(102)/2021 – Canbank Factors Limited v. Shri Sativada Venkat Rao (M/3359).

Ref: Letter bearing no. G/DD/Com-CA(102)/05/08/2023 dated August 16, 2023

This is with reference to the letter dated 16.08.2023 wherein Shri Sativada Venkat Rao has submitted his reply to the complaint bearing no. Com/21-CA(102)/2021. It is understood from the reply submitted by Shri Sativada Venkat Rao that the complainant has not attached any copy of the Cost Audit Report based on which the complaint has been filed. However, it is pertinent to mention here that the complaint has been filed based on the standalone financial statements of Metrochem API Pvt. Ltd for the financial year 2019-2020. Upon closer examination of the said financial statements for the financial year 2019-2020, it is observed that, certain aspects of the said financial statements do not reflect the true state of the company's financial affairs.

Please refer - Board's report (Annexure A/3 of our complaint) of the said financial statements for the financial year 2019-2020 on Page 19 (page no. 40 of complaint) which mentions that "there are no qualifications or reservations or adverse remarks in the cost auditors report which requires any clarification/ explanation." It is to be mentioned here that Section 143 of the Companies Act 2013, Sub section (3) (f) clearly mentions one of the duties of the auditor to make such observations or comments on the financial matters or matters which may have adverse effect on the functioning of the company. Furthermore, sub section (12) makes it clear that if an auditor of a company in the course of the performance of his duties as auditor, has reason to believe that an offence of fraud involving such amount or amounts as may be prescribed, is being or has been committed in the company by its officers or employees, then the auditor shall report the matter to the Central Government within such time and in such manner as may be prescribed.

All the deviations on the part of the Metrochem API Pvt. Ltd. have been clearly stated in the complaint dated 08.02.2021 which are not clearly represented in the said financial statements for the financial year 2019-2020.

The onus is on the cost auditor to ensure that the report provides a comprehensive and accurate representation of the company's conduct, financial position, performance and cash flow. Unfortunately, it had come to our attention that certain key events have not been disclosed in the said financial statements for the financial year 2019-2020.

In view of the above stated, complaint dated 08.02.2021 has been filed against Shri Sativada Venkat Rao, N.G.Rao & Associates and P.S.N. Ravishanker & Associates alleging acts of misconduct by not disclosing the crucial information in financial statements of Metrochem API Pvt. Ltd for the financial year 2019-2020.

Note: M/s Canbank Factors Ltd-Ahmedabad Branch is merged with our Mumbai branch w.e.f from 01.03.2021. I have been posted to Registered Office Bangalore. Please find the below address details for correspondence:

Regards,
For Canbank Factors Ltd
Authorized Signatory
K Ramesh
Officer
Canbank factors Ltd
Registered Office
Banglore

Unquote

8. **Investigation and Analysis**

a) A notice dated 18th September, 2023 issued under Rule 8(5) to Respondent (Shri Sativada Venkat Rao), raising seven queries by the Disciplinary Directorate and requiring submission of a response within a period of seven days. In compliance thereof, Shri Sativada Venkat Rao, vide letter dated 2nd October, 2023 submitted his reply to the said notice. The queries raised and the responses thereto are reproduced hereunder:

S. No.	Query	Response
1	Whether you were the cost auditor of Metrochem API Private Ltd for FY 2019-20?	Yes
2	If yes, please provide the cost audit report of Metrochem API Private Ltd.	Attached
3	Did your cost audit report contain any adverse remarks on any of the matters pertaining to the cost audit of Metrochem API Private Ltd?	There are no adverse Remarks.
4	If so, please mention the same.	NIL
5	Please mention the date of commencement of	From 01-09-2020 to 11-

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	cost audit and the date of conclusion of the same.	09-2020
6	How many qualified cost accountants were involved in the cost audit of Metrochem API Private Ltd.?	One qualified One semi qualified
7	When did you submit your cost audit report in the form CRA-3 to the management of Metrochem API Private Ltd	18-09-2020

b) A notice dated 20th September, 2023 u/r 8(5) was issued to Dr. N. Venkateswara Rao (Chairman & Managing Director) of Metrochem API Private Ltd, containing nine queries raised by the Directorate of Discipline. In response thereto, Dr. N. Venkateswara Rao, vide letter dated 4th October, 2023, submitted his reply to the aforesaid notice. The queries raised and the corresponding responses are tabulated hereunder:

S. No.	Query	Response
1	Who was the cost auditor of Metrochem API Private Limited for the FY 2019-20	Sri. Sativada Venkat Rao
2	What was the cost auditor's scope of work? Please provide a copy of the same.	Audit of cost records as required as per Section 148 of Companies Act, 2013 read with rules.
3	Please mention the date of commencement of cost audit and the date of conclusion of the same for the FY 2019-20.	From 01.09.2020 to 11.09.2020
4	How many qualified cost accountants were involved in the cost audit of Metrochem API	One Qualified and One Semi Qualified.

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	Private Ltd. Please provide a copy of the attendance sheet, if any?	
5	What were the areas that were actually audited by the cost auditor during the course of audit in your company for the FY 2019-2020.	Applicable cost records.
6	Did the cost audit report contain any adverse remarks on any of the matters pertaining to the cost audit of Metrochem API Private Ltd?	There are no adverse Remarks.
7	If so, please mention the same	Nil
8	When was the cost audit report submitted to the management of Metrochem API Private Ltd? Please provide a copy of Form CRA – 3?	18-09-2020, a copy of Form CRA-3 is enclosed
9	What was the cost audit fee for undertaking cost audit of Metrochem API Private Ltd.? Was there any out of pocket expenses? If so, please specify.	Rs.70,000 (Rupees Seventy Thousand only) as Fees and pocket expenses to the extent of Rs.5000/- (Rupees Five Thousand only).

c) A notice dated 22nd September, 2023 followed by reminder dated 20th October, 2023 u/r 8(5) was issued to Shri Pawan Kumar Dubey (Asst. Vice President) of Canbank Factors Ltd, containing another five queries raised by the Directorate of Discipline. In response thereto, Shri Pawan Kumar Dubey, vide letter dated 31st October, 2023, submitted his reply to the aforesaid notice. The queries raised and the corresponding responses are tabulated hereunder:

S. No.	Query	Response

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1	Upon closer examination of the said auditors' report, it is observed that, certain aspects of the said financial statements do not reflect the true state of the company's financial affairs	The key events which have not been disclosed are already mentioned in our complaint dated 08.02.2021. We hereby reiterate the same. Copy of our complaint is enclosed as **Annexure-A1.**
2	The cost auditor has mentioned in the cost audit report for FY 2019-20 that "there are no qualifications or reservations or adverse remarks in the cost auditors report which requires any clarification/ explanation."	We here refer the standalone financial statements of M/s Metrochem API Pvt. Ltd. for FY 2019-20 wherein the remarks of the cost auditor are mentioned. Based on the remarks written under cost auditors report (page 40 of the complaint is enclosed as Annexure-A1), it is alleged that cost auditor has not disclosed the crucial information with regards to the deviations by M/s Metrochem API Pvt Ltd.
3	The provision of section 143(12) of the companies act, 2013 makes it clear that if an auditor of a company in the course of the performance of his duties as auditor, has reason to believe that an offence of fraud involving such amount or amounts as may be	The alleged acts of misconduct were already mentioned in our complaint dated 08.02.2021. We hereby reiterate the same. Copy of our complaint enclosed as **Annexure-A1.**

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	prescribed, is being or has been committed in the company by its officers or employees, then the auditor shall report the matter to the Central Government within such time and in such manner as may be prescribed.	
4	Certain key events have not been disclosed in the financial statements for the financial year 2019-2020	The key events which are not disclosed are already mentioned in our complaint dated 08.02.2021. We hereby reiterate the same. Copy of our complaint enclosed as **Annexure-A1.**
5	Alleging acts of misconduct by not disclosing the crucial information about the subject company in his auditors' report	The alleging acts of misconduct were already mentioned in our complaint dated 08.02.2021. We hereby reiterate the same. Copy of our complaint enclosed as **Annexure-A1.**

d) A notice dated 20th October, 2023 followed by reminder dated 15th December, 2023 u/r 8(5) was issued to Dr. N. Venkateswara Rao(Chairman & Managing Director) of Mterochem API Pvt. Ltd., containing another nine queries raised by the Directorate of Discipline. In response thereto Dr. N. Venkateswara Rao, vide letter dated 6th February, 2024 submitted his reply to the aforesaid notice. The queries raised and the corresponding responses are tabulated hereunder:

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S. No.	Query	Response
1	Was the scope of work of Sativada Venkat Rao (FRN 100340) formally communicated to the cost auditor of Metrochem API Pvt Ltd for the FY 2019-20 by way of a letter/mail or any other mode of communication? If so, please provide a copy of the same.	Yes, scope of work of Sativada Venkat Rao (FRN 100340) formally communicated to the Cost Auditor of Metrochem API Private Ltd for FY 2019-20 by way of letter addressed to him. copy is enclosed for your information and record.
2	Did the cost auditor exercise due diligence and prudence in conducting cost audit of Metrochem API Pvt Ltd.	Yes, The Cost Auditor exercised due diligence and prudence while conducting cost audit of our company. He has been cost auditor of our company and we are benefitted by his vast experience and knowledge in the field of cost accounting and cost audit procedure. He visited our various factory units for verification of manufacturing process and interacted with factory personnel.
3	Has there been a change in cost auditor of Metrochem API Private Ltd post FY 2019-20?	No, there has been no change in Cost auditor of our company post FY 2019-20.
4	If so, please provide the names of the cost auditor(s) for the FY 2020-21, 2021-22 & 2022- 23.	Not applicable.

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5	Did Canbank Factors Ltd file any application for initiating Corporate Insolvency Resolution Process (CIRP) against Metrochem API Private Ltd before the National Company Law Tribunal (NCLT)?	Yes, Canbank Factors filed application for CIRP against Metrochem API Pvt Ltd before the NCLT. We would like to bring to your kind notice that, the application filed by Canbank Factors Limited u/s 7 of IBC code, 2016 against the Company (Metrochem) vide CP.IB/86/2021 dated 09.03.2021, is disposed by National Company Law Tribunal (NCLT), Hyderabad, dated 28.09.2022, in favour of the Company (Metrochem), copy enclosed. Detailed excerpts of the same order has been reproduced hereinbefore for your kind perusal.
6	If your answer to para (vi) above is in affirmative, please provide the grounds of such application.	Canbank Factors in connivance with supplier fraudulently claimed an amount of Rs 6.2 crores appox without supply of materials to our company and filed application with NCLT praying for order to release the amounts to them.
7	In case the application for CIRP has been disposed of by NCLT, please	The application of Canbank Factors has been disposed off by NCLT,

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	provide a copy of the final judgement.	saying the claim of Canbank Factors not tenable. A Copy of NCLT judgment is enclosed as desired by you.
8	Does Metrochem API Pvt Ltd have or had at any time during the past, any business association with Canbank Factors Ltd.	No, Metrochem API Pvt Ltd did not have or had any business association with Canbank Factors during the past.
9	If your answer to para (ix) above is in affirmative, please provide details of such business association/relationship.	Not applicable.

e) A notice dated 12th February, 2024 u/r 8(5) was issued to Ramesh Kurati (Branch Head) of Cankbank Factors Ltd., containing another eight queries raised by the Directorate of Discipline. In response thereto Ramesh Kurati, vide letter dated 21st February, 2023 submitted his reply to the aforesaid notice. The queries raised and the corresponding responses are tabulated hereunder:

S. No.	Query	Response
1	Did Canbank Factors Ltd file any application for initiating Corporate Insolvency Resolution Process(CIRP) against Metrochem API Private Ltd before the National Company Law Tribunal (NCLT)?	Yes. Canbank Factors Ltd has filed application for initiating Corporate Insolvency Resolution Process (CIRP) against Metrochem API Pvt Ltd before the NCLT-Hyderabad.
2	If your answer to para(ii) above is in affirmative, please provide the	The application was filed under section 7 of IBC code 2016.

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	grounds of such application.	
3	In case the application for CIRP has been disposed of by NCLT, please provide a copy of the final judgement.	We hereby enclose orders pronounced by NCLT Ahmedabad on 28.09.2022.
4	Did your company have or at any time during the past had any business association with Metrochem API Private Ltd?	M/s P Praful & Company Agency (India) Pvt Ltd (referred as 'Supplier') is supplying material to M/s Metrochem API Pvt Ltd (referred as 'Buyer') against purchase order and in turn raises the invoices on the Buyer. The supplier was sanctioned Sale bill factoring (SBF) limit from Canbank Factors Ltd (CBFL) where invoices raised by the supplier on buyer will be factored based on material receipt confirmation given by the buyer to CBFL and the supplier got payment of the invoices from the CBFL. As per the requirement for factoring, the buyer has given Undertaking Letter (UTL) and acknowledged Authorization Letter (AL) through the supplier. As per the UTL & AL, the buyer has

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		undertaken to make payment of all factored invoices directly to CBFL. It accomplishes that the buyer is aware of the factoring arrangement sanctioned by CBFL to the supplier.
5	If so, please provide the nature of such business association with details thereof.	As explained in point no iv
6	Please provide your nature of business association with P. Praful & Company Agency (P) Ltd.	M/s P Praful & Company Agency (India) Pvt Ltd was availing Sale Bill factoring (SBF) facility from Canbank Factors Ltd since January 2015. M/s P Praful & Company Agency (India) Pvt Ltd (referred as 'Supplier') is supplying material to M/s Metrochem API Pvt Ltd (referred as 'Buyer') against purchase order and in turn raises the invoices on the Buyer. The supplier was sanctioned Sale bill factoring (SBF) limit from Canbank Factors Ltd (CBFL) where invoices raised by the supplier on buyer will be factored based on material receipt confirmation, Undertaking Letter (UTL) and acknowledged

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		Authorization Letter (AL) given by buyer (as per the requirement for factoring).
7	Does Mr. Sohan Singh still work in your organization as Asst. Vice President?	No.
8	If your answer to above para (vii) is in negative, please provide the details thereof.	Mr. Sohan Singh was relieved upon his resignation, from the services of the company w.e.f. 20.12.2022 A.O.H.

f) Upon consideration of the replies furnished by the Respondent, Metrochem API Private Limited and Canbank Factors Limited during the investigation conducted under Rule 8(5) of the Cost and Works Accountants (Procedure of Investigations of Professional and Other Misconduct and Conduct of Cases) Rules, 2007, the following facts emerge as undisputed:

i) That Shri Sativada Venkat Rao was the duly appointed Cost Auditor of Metrochem API Private Limited for the financial year 2019-20 under Section 148 of the Companies Act, 2013. He was also the Cost Auditor of said company in previous year.

ii) That, Respondent completed the cost audit within the prescribed scope and submitted an unqualified Cost Audit Report (Form CRA-3), containing no qualification, reservation or adverse remark, to the management vide report dated 18th September, 2020.

iii) That, there is commercial dispute between Canbank Factors Limited and Metrochem API Private Limited relating to factoring transactions, alleged fraudulent invoices and recovery proceedings initiated under the Insolvency and

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Bankruptcy Code, 2016 before the National Company Law Tribunal (NCLT).

iv) Metrochem API Private Limited alleged that the claim of Canbank Factors Limited was founded upon fake invoices purportedly generated by M/s P. Praful & Company Agency (India) Private Limited in collusion with certain individuals, including an unscrupulous employee of its Corporate Accounts Department, in respect of which criminal proceedings had already been initiated. Metrochem API Private Limited further alleged that the Ahmedabad Branch of Canbank Factors Limited had been involved in similar fraudulent transactions and that criminal complaints had been lodged in relation thereto. These allegations, however, remain disputed between the parties and are recorded only as part of their respective stands.

v) Both Metrochem API Private Limited and Canbank Factors Limited have confirmed that Corporate Insolvency Resolution Process (CIRP) proceedings under Section 7 of the Insolvency and Bankruptcy Code, 2016 were instituted before the NCLT against Metrochem API Private Limited.

vi) That the said CIRP proceedings were dismissed by the NCLT vide order dated 28th September, 2022 by holding that Canbank Factors Limited cannot claim to be a Financial Creditor qua the Metrochem API Private Limited so as to maintain the instant application filed under section 7 of the code against Metrochem API Private Limited with a liberty to the applicant to seek redressal elsewhere in accordance with law.

9. <u>Comments of the Discipline Directorate</u>

a) The Directorate has carefully examined the complaint, the written statement filed by the Respondent, the rejoinder submitted by the Complainant, the documentary material placed on record, and the replies received from the Respondent, Metrochem API Private Limited and Canbank Factors Limited pursuant to the notices issued under Rule 8(5) of the Cost and Works Accountants (Procedure of Investigations of

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Professional and Other Misconduct and Conduct of Cases) Rules, 2007.

b) Upon examination of Annexure A/1 to the complaint, it is observed that although the Complainant has enumerated nine allegations, the principal grievance against the Respondent is that, while acting as the Cost Auditor of Metrochem API Private Limited for the financial year 2019-20, he allegedly failed to report an offence of fraud in terms of Section 143(12) of the Companies Act, 2013 read with Rule 6(7) of the Companies (Cost Records and Audit) Rules, 2014. The remaining allegations are either consequential to the aforesaid allegation, relate to the underlying commercial dispute between the parties, or do not independently disclose any specific act of professional misconduct attributable to the Respondent.

c) Accordingly, the principal issue for consideration is whether the Respondent failed to exercise due diligence, failed to obtain sufficient and appropriate audit evidence, omitted to report material facts or suspected fraud, and thereby issued an unqualified Cost Audit Report in contravention of Clauses (5), (6), (7) and (8) of Part I of the Second Schedule to the Cost Accountants Act, 1959.

d) It is a settled principle that the burden of establishing professional misconduct rests upon the Complainant. Mere allegations, however serious, cannot constitute professional misconduct unless supported by cogent and credible evidence establishing that the Respondent either had knowledge of the alleged irregularities or that such irregularities ought reasonably to have been detected in the discharge of his professional duties.

e) The investigation reveals that the genesis of the complaint lies in a commercial dispute between Canbank Factors Limited and Metrochem API Private Limited concerning factoring transactions, alleged fraudulent invoices and proceedings initiated under the Insolvency and Bankruptcy Code, 2016 before the National Company Law Tribunal (NCLT). During the investigation, Metrochem API Private Limited consistently maintained that the invoices forming the basis of the claim raised

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by Canbank Factors Limited were fabricated and related to material which had never been supplied. It was further contended that the requisite supporting documents, including Goods Receipt Notes, Quality Certificates and E-way Bills, were not duly verified prior to factoring the invoices. These assertions have been disputed by the Complainant and constitute the subject matter of the underlying commercial dispute between the parties. The Directorate is of the view that adjudication upon such disputed questions of fact falls beyond the scope of disciplinary proceedings under the Cost Accountants Act, 1959.

f) It is, however, a matter of record that the application filed by Canbank Factors Limited under Section 7 of the Insolvency and Bankruptcy Code, 2016 dismissed by the Hon'ble National Company Law Tribunal vide order dated 28th September, 2022.

g) The replies furnished by the Respondent and Metrochem API Private Limited consistently state that the cost audit was conducted within the statutory scope prescribed under Section 148 of the Companies Act, 2013 and the applicable Cost Records and Audit Rules, and that no circumstance requiring qualification, reservation or adverse remark came to the notice of the Respondent during the course of the audit.

h) With regard to the allegation of failure to report fraud under Section 143(12) of the Companies Act, 2013, the investigation has not yielded any material to establish that, during the course of the cost audit, the Respondent had knowledge of any fraud or possessed information giving rise to the statutory "reason to believe" contemplated under the said provision. The Cost Audit was from 01-09-2020 to 11-09-2020 and the Cost Audit Report was submitted on 18-09-2020. The subsequent allegations of fraud raised by the Complainant, or the pendency of civil, criminal or insolvency proceedings between the parties (which was filed on 09.03.2021 and was disposed 28.09.2022), cannot retrospectively create such statutory obligation or establish non-compliance on the part of the Respondent. It is a matter of record that the application filed by Canbank Factors Limited under Section 7 of the Insolvency and Bankruptcy

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Code, 2016 against Metrochem API Private Limited was dismissed by the Hon'ble National Company Law Tribunal vide order dated 28th September, 2022. Although the dismissal of the said application is not, by itself, determinative of the Respondent's professional conduct, it lends support to the conclusion that the allegations emanated from a disputed commercial transaction and do not establish that the Respondent had any statutory obligation to report fraud under Section 143(12) of the Companies Act, 2013 or that the issuance of an unqualified Cost Audit Report was vitiated by professional negligence or misconduct. The mere existence of such commercial disputes and competing claims does not, by itself, establish professional negligence or misconduct on the part of the Respondent.

i) Likewise, the allegations relating to GST input tax credit, and other commercial transactions have not been substantiated by any independent evidence demonstrating that the Respondent failed to discharge any statutory duty cast upon him as Cost Auditor. No evidence has been produced whether the GST Authority has disputed against the alleged Invoice.

j) It is well settled that disciplinary proceedings are not intended to adjudicate disputed commercial claims between parties. Professional misconduct must be established by clear and convincing evidence demonstrating a failure to discharge professional duties with the degree of skill, care and diligence expected of a reasonably competent Cost Accountant. Such evidence is absent in the present case.

10. Findings and order of the Board of Discipline

a) The Board has carefully considered the complaint, the written statement of the Respondent, the rejoinder of the Complainant, the documents placed on record, the investigation conducted by the Director (Discipline) under the Cost and Works Accountants (Procedure of Investigations of Professional and Other Misconduct and Conduct of Cases) Rules, 2007, and the submissions made during the proceedings.

b) The principal allegation against the Respondent is that, while acting as the Cost

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Auditor of Metrochem API Private Limited for the financial year 2019-20, the Respondent failed to report an alleged fraud under Section 143(12) of the Companies Act, 2013, failed to exercise due diligence, failed to obtain sufficient audit evidence and consequently issued an unqualified Cost Audit Report which tantamount to professional misconduct.

c) Upon consideration of the material available on record, the Board finds that the allegations primarily emanate from a commercial dispute between Canbank Factors Limited and Metrochem API Private Limited relating to factoring transactions and the alleged fraudulent invoices. The dispute has also been the subject matter of proceedings before the National Company Law Tribunal and other legal forums. Such disputed commercial issues, by themselves, do not constitute proof of professional misconduct on the part of the Respondent.

d) The Board further observes that no material has been brought on record to establish that, during the conduct of the cost audit, the Respondent had knowledge of any fraud or possessed information giving rise to the statutory "reason to believe" contemplated under Section 143(12) of the Companies Act, 2013. In the absence of such evidence, the statutory obligation to report fraud cannot be presumed merely on the basis of subsequent allegations or disputes raised by the Complainant.

e) The investigation has also not revealed any material demonstrating that the Respondent failed to conduct the cost audit in accordance with the scope prescribed under Section 148 of the Companies Act, 2013 or that he deliberately ignored any material information which ought reasonably to have resulted in a qualification, reservation or adverse remark in the Cost Audit Report. The allegations regarding GST input tax credit, factoring arrangements and other commercial transactions have likewise not been supported by independent evidence establishing any breach of the Respondent's professional duties as a Cost Auditor.

f) The Board is of the considered view that disciplinary proceedings cannot be invoked

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to adjudicate rival commercial claims or to determine disputed questions of fact arising between third parties. Professional misconduct must be established by reliable and cogent evidence demonstrating a breach of the professional standards prescribed under the Cost Accountants Act, 1959. No such evidence is forthcoming in the present case.

g) In view of the above findings, the Board upheld the opinion of the Director (Discipline) that the material available on record does not disclose a prima facie case of professional or other misconduct against the Respondent under any of schedule to the Cost Accountants Act, 1959.The allegations remain unsubstantiated and are insufficient to warrant disciplinary action under the provisions of the Cost Accountants Act, 1959.After detailed deliberations, the Board decided to order for closure of the matter in accordance with Rule 9(3) (a) of the Cost and Works Accountants (Procedure of Investigations of Professional and other Misconduct and Conduct of Cases) Rules, 2007 and inform the Complainant and the Respondent accordingly.

h) The matter stands disposed of accordingly.

A. Goswami

CMA Avijit Goswami

(Member)

Shri P.K. Pujari, IAS (Retd)

(Presiding Officer)

Place: New Delhi
Date: 19th August, 2026

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Distribution under Rule 15(3) of the Rule

1) Director(Discipline), The Institute of Cost Accountants of India
2) Complainant, Canbank Factors Ltd.
3) Respondent, Shri Sativada Venkat Rao (M/3359)