

NFRA to issue notice on Deloitte in IFIN case

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The National Financial Regulatory Authority (NFRA) has initiated disciplinary action against Deloitte Haskins & Sells (DHS) for alleged lapses in its audits of IL&FS Financial Services (IFIN).

“The first step would be to issue a show-cause notice to the audit company, before any action is taken... It is in the works,” a senior government official told *Business Standard*.

The regulatory body had said in an audit quality review report that quality control systems and processes at DHS were “severely inadequate and ineffective”.

NFRA said the auditor did not display the required professional scepticism. It accepted the management stand about not disclosing that net-owned funds and the capital to risk-assets ratio of IFIN as of March 31, 2018, were negative, and that this situation would lead to the cancellation of the company’s licence to operate as a non-banking financial company. Instead, DHS accepted the explanations of the management and certified these ratios as positive.

NFRA has been given powers to issue orders imposing monetary penalty and debarring an individual member or firm registered with Institute



GAPS FOUND IN AUDIT REPORT

- Failure to comply with standards of auditing
- Didn’t question the going concern assumption, based on which financial statements were made
- Independence of auditor compromised
- Non-audit services provided at high fee without approval
- Incorrectly certified accounts showing positive net owned funds and CRAR

of Chartered Accountants of India (ICAI) for six months to 10 years for professional or any other misconduct.

NFRA would seek Deloitte’s response on its findings soon. The authority has also advised Deloitte to take necessary action to revamp its processes and rigorously ensure compliance.

Deloitte India did not wish to comment on the matter.

The company recently announced that it would not offer non-audit services to any of its audit clients.

“We believe this would increase the public’s confidence in auditor independence and quality and will remove ambiguity in a public and business environment that demands greater clarity about our service,” the company said.

In an earlier statement, Deloitte India had said, “We

remain confident that our audits have been performed in accordance with applicable laws, regulations, and professional standards in India.”

The authority is also likely to come up with a supplementary report to deal with matters that have not been covered.

The Serious Fraud Investigation Office, too, in its complaint had said the auditors had failed to verify the end-use of bank finances and the money raised through non-convertible debentures, despite it being a regulatory mandate for verifying such things.

The Ministry of Corporate Affairs has sought a five-year ban on the former auditors of IL&FS under the Companies Act. The Bombay High Court granted interim relief to the auditors against any coercive action in November.