

# Regulator red flags IL&FS audit lapses

## NFRA Blames Ernst & Young Affiliate SRBC & Co For Failure On Multiple Fronts

TIMES NEWS NETWORK

**New Delhi:** The National Financial Reporting Authority (NFRA), the regulator for auditors of large and listed entities, has red flagged Ernst & Young affiliate SRBC & Co's audit of IL&FS and blamed it for failure on multiple fronts.

While overruling SRBC's objections over its jurisdiction, NFRA's audit quality review report (AQRR) for 2017-18 also noted that there was a violation of the principle of auditor independence too as the EY network provided prohibited services to the IL&FS Group. SRBC also had earned non-audit fees from the now-collapsed entity.

When contacted, a spokesperson for the firm said, "Over the past three years, SRBC & Co LLP has co-operated fully with NFRA. We are currently reviewing the AQRR. We remain confident of our audits which have been performed in accordance with applicable laws and professional standards."

NFRA, which was notified after a series of corporate scandals, has found several instances of lapses in the firm's audit work. For instance, it said that the statutory auditor failed to verify nearly 80% of the cases when

### Auditor Independence Violated: Report

➤ NFRA's report finds violation of principle of auditor independence as EY network offered prohibited services to IL&FS Group

➤ EY affiliate SRBC got non-audit fees from now-collapsed entity

➤ Auditor failed to verify nearly 80% of cases when

value of investments touched ₹12,320 crore (around half of balance sheet size), says NFRA



➤ There were lapses in audit of loans of over ₹8,000 crore

➤ SRBC failed to red flag related party transactions, adding up to 93% of company's revenue

### CA barred from taking up audit work

The National Financial Reporting Authority has barred chartered accountant Gulshan Jham from taking up audit work for any company, citing "professional misconduct" in the audit of Prabhu Steel Industries for financial year 2019-20. TNN

the value of investments added up to Rs 12,320 crore, which was around half the balance sheet size.

"In the majority of the cases relating to investments, the audit firm simply relied on the management assumptions and assessments regarding the impairment of investments without independently verifying the veracity of such assumptions and assessments and failed in challenging the same. In that process, the audit firm ignored the visible impairment indicators, such as insolvency proceedings, permanent decline in market value of in-

vestments, negative net worth of component entities, etc," NFRA said, citing how such lapses were taken seriously by regulators in the UK and the US.

Further, the report points to lapses in the audit of loans of over Rs 8,000 crore given by the company and noted that SRBC failed to red flag the related-party transactions, which added up to 93% of the company's revenue. Further, SRBC has been held guilty of failing to comply with basic audit requirements on multiple counts and complying with quality control norms.