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## **IFIN FRAUD NOTHING SHORT OF ORGANISED CRIME, SAYS MCA**

The government detected at least 22 violations of auditing standards by Deloitte Haskins & Sells and a KPMG affiliate (BSR & Co) while investigating a fraud at a financial company, leading it to seek a five-year ban on the auditors, according to government legal filings seen by *Reuters*. The failures were detected as part of a wide-ranging probe into alleged fraud and mismanagement at IL&FS, which defaulted on its debt obligations last year and sparked fears of financial contagion. **5 ▶**

# IL&FS fraud nothing short of organised crime, abetted by auditors, says Centre

Legal filings allege 22 violations by Deloitte, BSR

REUTERS  
New Delhi, 13 June

India detected at least 22 violations of auditing standards by Deloitte Haskins & Sells and a KPMG affiliate (BSR & Co) while investigating a fraud at a financial company, leading it to seek a five-year ban on the auditors, according to government legal filings seen by *Reuters*.

The failures were detected as part of a wide-ranging probe into alleged fraud and mismanagement at Infrastructure Leasing & Financial Services (IL&FS), which defaulted on its debt obligations last year and sparked fears of financial contagion.

Both auditors have denied wrongdoing.

After the government took over IL&FS, federal investigators began looking into one of its key financial units, IFIN, which was audited by

Deloitte between 2008-09 and 2017-18, and by a KPMG affiliate, BSR & Associates, from 2017-18.

The auditing firms gave clean audit reports and “deliberately” failed to report fraudulent activities at IFIN, said a 214-page tribunal filing submitted on Monday by the corporate affairs ministry, which was seen by *Reuters* and is not public.

Citing an investigation by the Serious Fraud Investigation Office (SFIO), the filing said auditors had “miserably failed to fulfil the duty entrusted to them”, adding they colluded with a group of IFIN officials to conceal facts.

“Simply put, the fraud committed at IFIN is nothing short of organised crime, actively aided and abetted by the statutory auditors,” said the ministry filing.

In response to an e-mail from *Reuters* detailing the allegations made in the filing, a Deloitte spokesman said



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it was confident “it has been thorough and diligent” in its duties as an auditor and looked forward to presenting its position to the courts and relevant authorities.

“The firm stands fully for its audit work which has been conducted in full compliance with the professional standards in India,” Deloitte said.

KPMG affiliate BSR said it was studying the government’s tribunal fil-

ing and would “defend our position in accordance with the law”, adding: “BSR’s audit of IFIN was performed in accordance with the applicable auditing standards and legal framework.”

IL&FS did not respond to a request for comment.

The National Company Law Tribunal on Monday asked Deloitte and the KPMG affiliate to file their responses on the allegations, setting

June 21 as the next hearing date, said Sanjay Shorey, director for legal prosecution at the corporate affairs ministry.

The government has urged the tribunal to impose a five-year ban on the two auditors. It has also sought to bar the accounting firms from selling any of their properties while the case is heard, legal filings showed.

Part of the IL&FS group, IFIN was one of the thousands of shadow banking companies in India, whose primary business is to raise funds for lending from banks and the public.

The SFIO probe found IFIN extended loans to companies that did not service their debt. Then, to avoid classifying them as bad loans, it lent funds to the defaulters’ group companies that were used to repay the earlier loans, the filing said.

There were 88 instances of loan disbursements and repayments with an amount totalling ₹92.8 billion (\$1.33 billion). “The auditors, despite being aware of this modus operandi of fraudulently funding of principal and interest to the defaulting borrowers, had not reported the same in the audit report,” the government alleged in the court filing.

Deloitte said it was confident ‘it has been thorough and diligent’, while BSR said its audit was in accordance with auditing standards