

'EY Partner Firm SRBC's IL&FS Audit Compromised'

Large scale professional, regulatory & legal non-compliance: NFRA

Our Bureau

New Delhi: The National Financial Reporting Authority (NFRA) said an EY partner firm SRBC & Co's audit of the beleaguered Infrastructure Leasing & Financial Services Limited (IL&FS) was seriously compromised and the scam at the financier could have been detected much earlier if the auditor was more vigilant. In its audit quality report (AQR) released on Tuesday, the NFRA pointed to "large scale non-compliance with professional and regulatory and legal requirements" by the auditor.

"Over the past three years, SRBC & Co LLP (SRBC) has cooperated fully with NFRA. We are currently reviewing the Audit Quality Review report. We remain confident of our audits which have been performed in accordance with applicable laws and professional standards," an SRBC statement said.

The Central government had in September 2019 asked NFRA for an AQR of the statutory audit of IL&FS by SRBC & Co for FY18.

In the 389-page report, NFRA said SRBC was not qualified to undertake audit work for IL&FS since it was a partner firm of big fo-



ur consultant EY, which had provided non-audit related services to IL&FS, creating a conflict of interest. Audit rules prohibit any business relationship between auditor and auditee.

According to the report, in the four years leading to FY18, the EY group entities had earned a total non-audit fee of ₹4.57 crore from IL&FS, much higher than the audit fees of ₹2.3 crore earned.

"NFRA concludes that the audit firm has formed an opinion on the financial statements of the company and issued its audit report without obtaining reasonable assurance about whether the financial statements as a whole were free from material misstatement, whether due to

CONFLICT OF INTEREST

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fraud or error and thereby failed to meet the requirements of Standards on Auditing 700 (SA 700)," said the NFRA report.

After IL&FS defaulted on its payment obligations, a massive financial fraud came to light prompting the central government to dissolve the board of IL&FS in October 2018.

NFRA also said that SRBC did not verify the investments shown in IL&FS standalone financial statements in 80% of the cases. IL&FS accounts showed it had ₹12,320 crore in financial investments as of March 2018.

NFRA added that there was no evidence of investment available on record for investments worth ₹1,637 crore.