

NFRA to widen ambit of scrutiny this fiscal

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THE NATIONAL FINANCIAL Reporting Authority (NFRA) continues to be unrelenting in its drive to enforce audit quality. While the Big Five auditors came under its scrutiny last year, the regulator has decided to widen the ambit of its annual inspection this year.

Three more audit firms, including MSKA and Associates (affiliated to BDO) and Lodha & Co, will be subjected to fresh inspection soon, a senior official said, adding that the regulator is going to further expand the list and pick up more firms in FY25.

"The top eight auditing firms will be inspected first and a detailed report on each of them will be out by December this year. A few more firms will be picked up later for inspection," the source said.

The annual practice to inspect audit firms, which started in 2023, is to ensure that the statutory auditors are following the audit standards notified by the central government. The auditors are required to take corrective steps in case lapses are found.

The official source said that the regulator has also identified around 60 listed companies — clients of these major auditing firms — to examine their compliance with the auditing standards. The NFRA will directly engage with the audit committees, independent directors, chief financial officers and other management executives of the companies once they begin inspection.



QUALITY CHECK

■ Big Five came under scrutiny last year in effort to enhance audit quality

■ Three more firms, including MSKA and Associates and Lodha, under the lens now

■ NFRA is going to further expand the list and pick up more firms in FY25

■ Detailed report on top 8 audit firms to be out by **December** this year

In the last round of inspection, regulator had raised issues with the auditors' independence and their non-audit work. It had found that large auditors were providing non-audit services to their clients, which was leading to a conflict of interest with the auditees, and subsequently causing lapses in the auditing process.

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FOR INSTANCE, NFRA'S inspection team observed that SRBC & Co LLP (an EY affiliate) was providing audit services to a client when some other EY network entity was providing non-audit services to the auditee group in violation of section 144 and section 141 of the Companies Act, 2013. Though the audit firms have maintained that through inspections, NFRA is giving mere suggestions on the areas where the auditors can improve. "These (inspections) are great inputs but they have not said whether our work was of poor or good quality. They don't comment like that,"

Vishesh Chandniok, CEO of Grant Thornton Bharat, told FE in March.

The other issues identified by the watchdog were improper communication of the auditors with the directors of the company and lack of documentation for their assessments.

"It's difficult for the auditor alone to ensure the quality of

financial statements. Even though the statutory auditor has a larger responsibility and accountability to all the stakeholders, the role of audit committee, internal auditor, etc, can not be undermined. It's a wise decision for NFRA to engage with all those involved in the financial reporting value chain," said Ashok Haldia, former secretary, ICAI (The Institute of Chartered Accountants of India).

The Big Five firms are BSR & Co (affiliated to KPMG), Deloitte Haskins & Sells (DHS), SRBC & Co, Price Waterhouse Chartered Accountants, and Walker Chandniok & Co (affiliated to Grant Thornton). There are nearly 100,000 audit firms in the country with 75% of them operating as proprietary firms.

As per primeinfobase.com, the Big Six audit firms handled 637 assignments (out of 1,961 companies), commanding a market share of 32.48% among all the NSE-listed companies as on March 2024.

