

# Auditor resignations not all that rare

SACHIN P MAMPATTA  
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Resignations of auditors have suddenly come into the limelight, following sharp declines in share prices of the companies involved. However, such occurrences are less rare than one might suppose.

The median number of such resignations is 26 in the five years from FY15 to FY19, shows a *Business Standard* analysis of information from Prime Database. This means over two dozen auditors have resigned every year or two a month since financial year 2014-15. This number only has those cases where a reason for cessation is provided.

According to the data there were 16 such cases in FY15 and 38 in FY18. The figure for the current financial year is already at 26. The data for May was retrieved on June 1. May alone saw at least three major exits, including at fruit juice manu-

facturer Manpasand Beverages, construction and engineering company Atlanta and technology company Vakrangee. The share price of such companies have dropped significantly or hit lower circuits after the auditor exits came to light.

"It's important that specifics are given, since lack of information can often affect the stock price worse than a negative observation," noted Pranav Haldea, managing director of PRIME Database Group, adding auditor rotation could also have contributed to the rise in resignations. Authorities have moved on better regulation on auditors in recent times.

The Securities and Exchange Board of India (Sebi) barred Price Waterhouse from acting as an auditor for two years for listed companies over audit lapses. The government has also moved to set up a separate regulator for auditors, called the National Financial Reporting Authority. The



## EXIT WINDOW

Every year since FY15 has seen at least a dozen resignations

| Year  | Number of resignations |
|-------|------------------------|
| FY15  | 16                     |
| FY16  | 23                     |
| FY17  | 40                     |
| FY18  | 38                     |
| FY19* | 26                     |

Note: \*Includes all data for cessations where reasons have been given. Data for this year has been retrieved on 1st June. Source: Prime Database

Companies Act now allows for class-action suits, and there is greater scrutiny from the Reserve Bank of India, following a spate of bad loans.

"You will see more and more resignations," said a partner at a top audit firm, who declined to be identified because of the sensitivity of the issue.

A number of companies only announce an auditor exit.

They do not go into details about the reasons, showed an analysis of stock exchange filings around these. Lack of information on exits was more in the past.

The October 2017 report of the Uday-Kotak-led committee on corporate governance pointed to the need for auditors to spell out reasons for an exit. "The resignation of an auditor

before expiry of the term may be a cause for concern. For the sake of greater transparency, the committee believes it is important for companies to disclose the reasons for the resignation of its audit firm. Moreover, audit firms, too, must be encouraged to truthfully disclose the reasons," it said.

A change for the better is happening. J N Gupta, co-founder and managing director of corporate governance advisory Stakeholder Empowerment Services, said one would earlier see a lot of auditors quitting on personal grounds or other such reasons when they felt discomfort. There is more openness now, pushed by greater scrutiny and regulation. This could well improve disclosures, and cause more auditors to quit if they are not happy with the numbers.

"I would say wherever auditors are uncomfortable...they will take the route of resignation," he said.