

# Auditors feel the heat from 'cooling-off Bill'

A draft Bill proposes ways to check conflict of interest among auditors and their clients

RUCHIKA CHITRAVANSHI  
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When a company recently invited pitches to select an auditor, it requested one of the Big Four firms to stay away from the meeting, saying it wanted to use the auditor's advisory services in the customer relationship department instead. In a second such meeting, another of the Big Four was conspicuous by its absence — the client was keen on engaging it for a tax-related non-audit service.

The Indian corporate sector is preparing for proposed radical changes to the Companies Act. The changes will determine under what circumstances an auditor can work for a company. The idea is to ensure that there is no conflict of interest arising out of the basic fact that the company pays the auditing firm for audits and for other non-audit services.

The draft Bill, introduced in Parliament earlier this year, proposes a three-year 'cooling-off' period for auditors. During the three years the auditor cannot provide any non-audit services to the company whose accounts it has just audited. The usual 'audit term' for an auditor is five years, following which it can be reappointed for another five years.

Although the Bill is being scrutinised by a joint committee of the two Houses, it is already playing out in the minds of companies and audit and advisory firms in picking their engagements.

Here's what the Bill proposes: A cooling-off period for audit firms, so that they cannot provide non-audit services of any kind to the company, its holding company or subsidiary for three years after the completion of the audit term. In any case, the auditor cannot be hired for non-audit services during its audit term.

This is because the government wants to put stricter provisions in place to ensure there is no conflict of interest between the auditor and the audited entity. This particular provision would mean that a firm cannot provide non-audit services to a client for at least eight years — five as auditor and three for the cooling-off period.

If a firm gets to be the auditor for



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10 years (the maximum duration allowed) this 'cooling-off' period would span 13 years — 10 years of providing audit services, during which no non-audit services can be provided, plus three years of cooling off.

Non-audit services prohibited under the Act include internal audit (which are management-led), management services, investment advisory, investment banking, and actuarial services among others.

The idea is to strengthen the audit framework and enhance auditor independence, which are seen as essential to boosting investor confidence in the Indian market.

Various industry chambers have started voicing concern over these proposed amendments. Assocham for instance has told the government that by limiting advisory services that are unrelated to audited matters, the proposal may disproportionately impact mid-sized and smaller firms providing audit and non-audit services, while further entrenching market concentration by

larger firms, the biggest of whom — Deloitte, PriceWaterCooper (PwC), EY and KPMG — are known around the world as the Big Four.

A senior partner at one of the Big Four agreed. "With this three-year cooling-off period, firms will think long and hard before they pick up an audit. It can potentially bring down the pool of audit expertise for a larger group. This will impact the advisory market too, as firms will choose audit assignments where there is no scope of advisory services. Potentially this could up the price of an audit."

## Ensuring independence

To be sure, while industry representatives argue that there are safeguards in place to address auditors' independence risks — such as oversight by audit committees and restrictions under Section 144 of the Companies Act — inspections by the National Financial Reporting Authority (NFRA), the regulator, have found conflict of interest to be a major problem.

In its last inspection report in March the NFRA found audit firm Walter Chandio & Co non-compliant with the independence requirement. The NFRA said the firm was not independent of the Grant Thornton network whereas there should be no overlaps in clients — where one is providing audit and the other nonaudit services — since it did not accept being part of the Grant Thornton network.

The Authority went on to flag the need for audit firm Deloitte Haskins & Sells to prohibit non-audit services by non-India network firms. The global nature and size of networks like the Big Four can spawn potential violations when it comes to working with Indian clients' group entities.

Deloitte in its response has asked the NFRA to provide mandatory guidance on management services not allowed under Section 144 of the Companies Act. The audit firm stated that recent guidelines by the Institute of Chartered Accountants of India (ICAI) say that Section 144 only applies to domestic networks.

Walker Chandio too told the NFRA that its independence policies have been and continue to be "fully compliant with all applicable laws and standards".

Section 144 of the Companies Act is meant to ensure auditors' independence by prohibiting statutory auditors from providing non-audit services to their client companies, holding companies, or subsidiaries.

Similar independence-related concerns have been highlighted in several other inspection reports of the NFRA where it has asked firms to take corrective action and to view these deficiencies as "areas of potential improvement and not as a negative assessment".

"The golden audit principles and ethos of the audit profession will require total prohibition on auditors rendering non-audit or pseudo audit services. It is thus a welcome proposal. However, the government and regulators need to take measures to ensure that companies raise audit fees so that audit firms are able to deliver quality audit," said Ashok Haldia, former secretary, ICAI.

Haldia said audit firms currently accept audits for a low fee and then ask for additional fees through means (that would involve providing other non-audit services) threatening their independence. "Unfortunately regulators and the government are blind to the ailment causing poor quality of audit and hampering healthy growth of the audit profession."

Experts say the concept of a cooling-off period has not been introduced globally and it is unique to India. The US, the UK, Singapore, Australia, and the European Union do not have such regu-

lations or provisions.

The proposed amendments aside, the Reserve Bank of India has a similar requirement for bank auditors but with a cooling-off period limited to one year. The Comptroller and Auditor General of India requires that a firm which has completed an audit of a 'Maharatna' — major profit-making public sector companies — will not be allowed to audit another Maharatna for a period of four years.

"This amendment would ultimately encourage restructuring of certain mid-size firms," said Gaurav Pingle, a practising company secretary — if a firm gets barred for three years for providing non-audit services to a company it has been auditing then, instead of losing that business for three years, it may simply hive off that business.

## The MSME angle

Smaller firms are worried not just about the cooling-off period but also a proposed amendment to Section 139 of the Companies Act 2013 that would allow the Central government to exempt "any class or classes of companies from mandatory statutory audit".

"It will be a draconian change and will destroy the MSME economy of chartered accountants. Small and medium companies are the bread-and-butter for smaller CA firms. Related staff will also be affected," said Kulbhushan Sharma of CA firm KPRS and Associates.

"The whole issue of conflict of interest is being raised because of some rare instances which can happen in any profession," Sharma added.

Prominent instances of conflict of interest involving auditors include the matter of J&FS financial services where an audit quality review in December 2019 found that Deloitte Haskins & Sells failed to comply with the standards of auditing and compromised its independence by providing prohibited non-audit services for substantial fees. In 2009, the Satyam scandal raised conflict of interest issues for the company's auditors PricewaterhouseCoopers (PwC).

PW India, Deloitte Haskins & Sells are among the firms that announced in 2020 that their network of firms in India will not offer non-audit services to public interest entities they audit here.

While exempting smaller companies from mandatory statutory audits may reduce recurring compliance work traditionally handled by small practitioners, company law experts said that these reforms may also create opportunities for specialised and niche advisory practices.

"It could strengthen the perception of auditor independence, and potentially open the market for emerging firms that were previously unable to compete with larger multidisciplinary networks," said Surbhi Kapoor, partner, King Stubb & Kasiva Advocates and Attorneys.

As of March 2026 there were nearly 21 million active companies in India, of which around 7,300 were listed entities. Of the remaining, the largest chunk belongs to the micro, small and medium enterprises or MSME segment. According to Prime Database, the top 10 audit firms accounted for audits of 803 companies or 39 per cent of listed companies.

"More than 1.6 million companies are MSMEs in the country and they are entrenched in a wider system. The government has to be careful in notifying which companies would be exempted. Doing away with audits is not going to encourage ease of doing business. Audit facilitates ease of doing business," said Ranjeet Kumar Agarwal, past president, ICAI.

Currently, all companies have to get statutory audits done.

Experts also pointed out that all companies, even MSMEs, need audited accounts for bank financing, and raising money, so taking away the statutory audit requirement may not necessarily help these firms.

## Talent crunch

Even as auditors, both big and small, fret over the Bill, Agarwal pointed to another bigger issue: Not many CAs are joining the audit profession.

"There are 50 million CAs in the country and only 150,000 are in practice," he said. Around 67 per cent of insolvency professionals today come from the pool of CAs, as well as the majority of valuers under the Insolvency and Bankruptcy Code.

"For an economy aspiring to become \$5 trillion in size we do not have a sufficient number of CAs. The responsibility of an auditor is enormous but the fee is not commensurate," Agarwal said.

A partner at one of the Big Four firms said that of 100-125 of its employees who take the CA exam every year, less than 10 per cent want to join the audit department. "The NFRA needs to position in a manner that talent does not dry up," the partner said.

Meanwhile, the final Bill is expected in Parliament's monsoon session. It will be keenly watched for where the government draws the line between regulatory safeguards and operational flexibility for audit firms.

**NON-AUDIT SERVICES PROHIBITED UNDER THE ACT INCLUDE INTERNAL AUDIT, MANAGEMENT SERVICES, INVESTMENT ADVISORY, INVESTMENT BANKING, AND ACTUARIAL SERVICES**