

# Auditor exits at multi-yr high

Sebi's decision to bar Price Waterhouse & affiliates rattled the industry, which is being extra cautious

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Mumbai, 9 January

The year 2018 has seen the highest number of mid-term auditor resignations in six years, according to data from PRIME Database. In 2018, the tally stood at 42, more than thrice the previous year.

Experts say the rise in resignations has been due to the Securities and Exchange Board of India's (Sebi's) decision to bar Price Waterhouse for two years as auditors in the Satyam scam.

The sweeping nature of the order, which came in January 2018, said neither PwC nor the audit firms in its network (PwC India) were allowed to audit any listed company or intermediary (such as brokers) for two years.

"The stringent action taken by Sebi against PwC has been one of the biggest reasons for the recent spate of auditor resignations. It showed how even the big-four (others being Deloitte, KPMG and EY) can face huge reputational and business risks if the company being audited turns out to be following fraudulent practices," said Pranav Haldea, managing director of PRIME Database. Some cases in which auditors resigned mid-term in



## FEELING THE HEAT

Auditors are now cautious at the slightest hint of any governance lapse



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2018 include those of Vakrangee, Manpasand Beverages and Atlanta.

The auditors stepped down only days before finalising the annual accounts, citing inadequate information shared by the companies during the audit.

Analysts suggest these cases highlight the gaps in auditing standards. "The reasons mentioned by the auditors seem to be inadequate and unconvincing. While Deloitte had been

Manpasand's auditor for eight years, during which they had issued a clean opinion, Atlanta's auditor were doing the audit for the first time. However, the previous auditors of Atlanta had issued clean opinions in previous years," Ambit said in a recent note.

However, the recent spate of auditor resignations could also be part of a course-correction by some.

Experts say earlier auditors took advantage of a less strict regulatory

environment. "Some auditors had taken the view that as flagging off inaccuracies or lapses in their clients' books of accounts meant losing fee in the bargain, it was better to avoid it.

They thought the possibility of getting penalised was quite unlikely; so, it didn't matter," said Pavan Kumar Vijay, managing director of advisory firm Corporate Professionals.

According to experts, some auditors were also lax as there was a conflict of interest, with client fees accounting for a major portion of their revenue.

However, some recent measures are going to make it difficult for auditors to turn a blind eye without consequences.

The central government recently notified rules regarding a National Financial Reporting Authority. This is to regulate accounting and audit standards and quality of service of auditors.

A stronger Companies Act is also a deterrent. "The Act of 2013 puts criminal liability on the part of the erring auditor," Pavan says.

Regulatory scrutiny could rise further. The Uday Kotak committee on better corporate governance has recommended Sebi have clear powers to act against auditors and other third-party individuals or firms with statutory duties under securities law.