

Boards Step Up Scrutiny as Battle for Audit Mandates Hots Up

GRANULAR CHECKS Besides sector expertise, committees also examining data security & cyber controls as audit rotation cycle kicks in

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Mumbai: As top firms rush from one pitch to the next amid visible momentum in India's audit rotation cycle, audit committees and company managements are getting under the hood like never before while setting novel benchmarks in decision granularity.

They are putting incumbent auditors to the litmus test, scrutinising partners and teams down to the manager level, assessing sector expertise and bandwidth, poring over NFRA (National Financial Reporting Authority) reports for regulatory red flags, examining data security and cyber controls, and demanding to know what value audit firms could bring beyond simply validating financial statements.

In some cases, the scrutiny has become so granular that committees are even asking for partners' birth certificates to assess whether they are likely to remain in the job

through the full audit mandate.

"Compared with the mandatory firm rotation (MFR) in 2017, I would say that the depth and quality of engagement in the auditor selection process have rightly increased significantly," said Samir Shah, audit leader, Deloitte Haskins & Sells LLP. "We are seeing a more mature, comprehensive and structured approach, with audit committees taking a much more active role in evaluating a wider range of factors."

BIG CHURN

A Prime Database study showed 1,030 audit mandates across 997 companies are due to expire in FY27. A further 314 audit arrangements across 305 companies are due for expiry in FY28.

Given how lucrative and widespread non-audit services have become for the Big Four firms—Deloitte, PwC, EY and KPMG—companies now want to settle the audit and non-audit services conflict issue first.

They are asking the audit affiliates what tax, advisory and other work can continue after an auditor rotation and how existing engagements will be transitioned if they need to. "It is important to ensure auditor independence both in law and spirit. Accordingly, early conversations are about non-audit services or conflicts of interest, if any," said Sudhir Soni, head of audit at BSR, a KPMG affiliate. "These arrangements can sometimes take time to resolu-

ve, which has led companies to advance the auditor selection process. Companies want to ensure the transition is smooth."

In some cases, large audit firms are steering clear of audit mandates where non-audit work is significantly larger.

EY was the only large firm that continued to provide some non-audit services to audit clients but lately has been only providing some tax related services. The firm says it follows "all applicable

regulatory and professional requirements." Audit partners say audit committees of leading companies are benchmarking the incumbent auditor on what it has done well, what needs to be strengthened and how gaps will be addressed.

BEYOND THE OBVIOUS

The focus then moves deep into the proposed team, beyond the lead partner to directors, senior managers and managers, with

questions on attrition, continuity and whether the team will remain stable through the audit cycle.

Firms are being asked not simply about their credentials but also about the specific team's experience in the sector and comparable companies.

Even the proposed lead audit partner is under similar scrutiny, with committees cross-checking market feedback on track record and responsiveness.

Auditors say that NFRA reports on top firms are being scrutinised to gauge any potential regulatory risk in the future. Technology has emerged as another major area of questioning. Committees want to know how AI and other tools can improve audit quality, throw up insights and shorten turnaround times, as well as what value the technology can deliver beyond the audit itself. "The ability to effectively leverage technology is therefore emerging as a key consideration in auditor selection," said Deloitte's Shah.

FINER POINTS



Cos prioritise resolving audit and non-audit service conflicts



Audit affiliates must explain permissible tax and advisory work



Team stability, attrition, and continuity receive sharper questioning



1,030 Audit mandates expire across 997 cos in FY27



314 Audit arrangements expire across 305 cos in FY28

Technology capability has become central to auditor selection