

Mid-term auditor exits mount at listed SMEs

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The number of auditors leaving small and medium enterprises (SMEs) before their term expires has increased in 2019. They account for most of such exits among listed firms.

They accounted for around 8 per cent of such exits in 2016. This has risen to over 66 per cent in the first five months of the year.

This year, mid-term auditor exits account for eight of the 12 cases as of May 16, shows a collation of such resignations from corporate tracker PRIME Database.

The share was 25 per cent last year (12 of 48 exits). It was also 25 per cent in 2017 (three of 12 exits). It was 8.3 per cent in 2016 (one of 12 exits). The share is higher than the year-ago periods. It was 36.8 per cent in 2018 and 16.7 per cent in 2017.

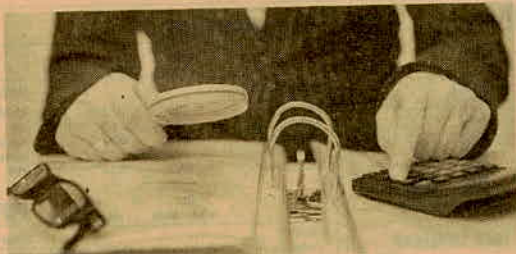
Pranav Haldea, managing director of PRIME Database Group, said the pace of auditor resignations might increase. Scrutiny on auditors has been rising after the Infrastructure Leasing & Financial Services (IL&FS) crisis, which resulted in significant pressure on its auditors after alleged irregularities came to light.

"The spotlight and liability on auditors is only increasing. For a long time, the focus has only been on independent directors," he said.

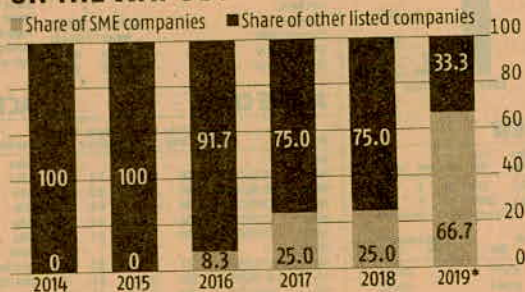
Auditor resignations came into focus around mid-2018. Sudden resignations by auditors in consumer goods company Manpasand Beverages resulted in the company losing around half its market capitalisation. Other companies, including construction and engineering firm Atlanta and technology venture Vakrangee, have also seen auditor resignations.

The SME firms that saw mid-term cessations include Surani Steel Tubes, Art Nirman, Sikko Industries, Silgo Retail, Latteys Industries, Zota Healthcare, Spectrum Electrical Industries and Kritika Wires. The other four (non-SME) firms that saw such exits are Sumeet Industries, Talwalkars Healthclubs, DEN Networks and Thiru Arooran Sugars.

Surani Steel Tubes, Kritika Wires and Spectrum Electrical Industries saw exits because of ineligibility or disqualification. DEN Networks' auditor resigned due to conflict of interest. The majority of others cited preoccupation or personal reasons, showed the



ON THE WAY OUT



*As of May 16, 2019, Figures in %

Source: Prime Database (nseinfobase.com), Business Standard calculations

data from Prime.

Emails were sent to the 12 firms that saw auditor resignations. None replied. The NSE did not comment.

Auditors can choose to end their association for a number of reasons. Increased scrutiny has resulted in many choosing to exit when they feel discomfort with regard to the company, according to Pavan Kumar Vijay, founder and managing director, Corporate Professionals India.

"Issue of resignation can be non-transparency in operations, failure to

provide financial information or documents supporting them, lack of assurance from the management on financial numbers, among others," he said.

Haldea added companies would also think twice about cooking their books. An auditor resignation can have a severe impact on stock price as previous examples have shown. Promoters would want to avoid such pain.

"Promoters are the biggest shareholders and they will want to avoid such incidents," he said.