

# Sebi proposes tighter audit norms for listed companies

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**MUMBAI:** Markets regulator Securities and Exchange Board of India (Sebi) has proposed stricter norms to strengthen audit processes and curb abrupt resignations of auditors in publicly traded companies.

The role of the audit committee and disclosures to investors must be strengthened to ensure that statutory auditors act more responsibly and resign only on genuine grounds without hurting investor sentiment, Sebi proposed in a consultation paper on Thursday.

"Several auditors continue to resign before fulfilling their responsibilities of completing the assignments.... This leaves the investors and stakeholders with lack of reliable information for making better financial decisions," said the Sebi paper.

The market watchdog proposed that the auditor of a listed entity (or its material unlisted unit) must finalize the audit report of the listed firm for the corresponding fiscal before resigning, especially if the auditor has already signed the audit report for all the three preceding quarters.

In all other cases, the auditor has to issue a limited review/audit report for that quarter before such a resignation (that is, previous quarter in reference to the date of resignation).

With respect to the auditor of a material unlisted subsidiary of a listed entity, the auditor has



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to issue the limited review/audit report for that fiscal/quarter before such resignation, Sebi proposed.

The reasons behind the exits of auditors have ranged from lack of adequate information on the company's businesses and revenues to tax observations and "mutual exits".

Some exits were also because of "health concerns" and "pre-occupation". In some other cases, the firm simply ceased to exist.

If the reason for the auditor's resignation is the entity not providing information, the auditor has to provide an appropriate disclaimer in the audit report to that extent.

In such cases, the auditor should provide the details of the information requested by the auditor that was not provided; and whether the inability to obtain sufficient audit evidence

was due to a management-imposed limitation or circumstances beyond the management's control.

The auditor should also clarify its assessment of the materiality to indicate whether the lack of information would have significant impact on the financial statements/results of the company or not.

The number of premature exits by auditors stood at 36 in the year ended March 2018, double that of the previous year.

"There have been a significant number of instances of abrupt resignation of statutory auditors from listed entities in recent times. In most of the cases, the statutory auditors have suddenly resigned without completing their assignments for the year, generally citing 'pre-occupation' as the reason for resignation," Sebi said in its consultation paper.