

Auditor exits show signs of tapering on stricter norms

So far in August, 9 have quit as against 16 in same month last year

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The people engaged to ensure that companies' financial statements are accurate and above board resigned in large numbers around this time last year. But the auditor resignations seem to have tapered off a year later.

There had been 16 mid-term cessations in August 2019. There have only been two in August 2020 so far, shows data from corporate tracker PRIME Infobase.

The rolling three-month average numbers have declined from as many as nine last year to one or less in the recent months. A total of 45 companies have seen mid-term auditor cessations since August last year. Only nine of them have happened since January.

A mix of more stringent regulations and auditors being more careful in vetting companies before

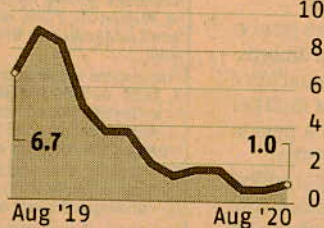


signing on may have contributed to the decline, according to experts.

Auditors may well prefer to lose a client than taking unnecessary risk, said Shriram Subramanian, founder and MD of domestic proxy advisor InGovern Research Services, who serves on the technical advisory committee of the audit regulatory body National Financial Reporting Authority. "They're conscious about their own reputation now," he said.

RESIGNATIONS ON THE DECLINE

Rolling 3-month average of mid-term cessations



Note: Data on number of cessations as available on August 17

Source: Primeinfobase.com, Business Standard calculation

Pranav Haldea, managing director at PRIME Database, said there was a rush to grab market share after auditor rotation rules were tightened. The idea behind mandatory auditor rotation was to avoid having the same auditor checking a company's financials for too long.

Nearly all companies in the listed space had to compulsorily change their longstanding auditors. This resulted in a number of new auditors signing on new

clients in a jiffy, only to uncover problems later. Resignations followed. Such large spikes in resignations are less likely with auditors being more careful now while picking up new assignments.

Recent regulatory actions against auditors have also contributed to this. Many large audit firms announced they would not offer audit services to clients where other non-audit work is also being done in order to avoid conflict of interest, said Haldea. "This may contribute to a few exits going forward, as portfolios are realigned," he added.

Auditors provide reasons for resignation. They have varied from unsatisfactory response to the queries raised, commercial considerations, health reasons, conflict of interest, personal reasons, and restructuring.

Better auditing standards have been associated with positive effects for companies too, according to a July 2017 International Journal of Auditing study. Companies can raise money at lower rates and see lower manipulation of earnings, though it can vary depending on the nature of the organisation, the study said.