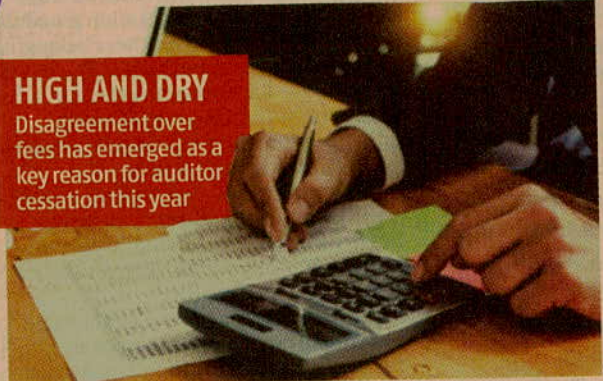


Fee discord stokes company-auditor divorces

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HIGH AND DRY
 Disagreement over fees has emerged as a key reason for auditor cessation this year



| Reason | Mid-term cessation | Total exits |
|------------------------------|--------------------|-------------|
| Term expired | NA | 24 |
| Fees | 4 | 11 |
| No intimation | 0 | 9 |
| Pre-occupation | 6 | 7 |
| No cooperation from company | 3 | 3 |
| Disqualification by ICAI | 1 | 2 |
| Alignment with group company | 3 | 4 |
| Covid-19 | 0 | 11 |
| Other reasons | NA | 35 |

Source: primeinfobase.com

Compensation has become a contentious issue between companies and auditors amid the coronavirus pandemic. So far this year, nearly 12 firms have reported resignations by their auditors due to disagreement over fees. While in some cases, companies asked the auditors to lower the fees they charge to inspect the financial statements, in other cases, the latter demanded a raise, leading to disassociation between the two.

All in all, 'fees' has emerged as one of the biggest reasons for the resignation of auditors this year. In quite a few cases, companies have even seen mid-term cessation by auditors over fees.

According to primeinfobase.com, a firm that tracks corporate action at listed companies, 96 companies have seen a change in auditors this year. In the case of 24, this was on account of the expiration of the term — typically a company appoints an auditor for a period of three or five years. In another 11 cases, companies appointed a new

auditor without citing a reason as to what happened to the previous one. A few auditors resigned, citing non-cooperation by companies or due to disqualification by the Institute of Chartered Accountants of India (ICAI).

This is the first calendar year when the Securities and Exchange Board of India's (Sebi's) new guidelines on auditor resignation have come into effect. Amid a spate of abrupt auditor resignations, the market regulator had issued a circular in October 2019, tightening the rules around such resignations from listed companies.

Experts say the cessation because of compensation is a genuine excuse only in some cases. Many, they add, may be using it to jump the troubled ship.

"In some companies, it could be justified, particularly in cases where companies have seen a reduction in business activity. But in many instances, companies are trying to get rid of the auditors, either to save money or for other intention, we don't know. A company asking the auditor to reduce fee, even though it is an insignificant amount compared to

their profits, is akin to forcing them to resign," said JN Gupta, founder and managing director, SES, a voting advisory firm.

Some believe that citing reasons such as disagreement over fees or heavy workload helps auditors sidestep controversial aspects.

"When it comes to auditor or independent director's resignations, one can never be sure of the actual reason. Often, reasons such as pre-occupation are given just to meet the regulatory requirements. Ultimately, the problem with auditors as well as independent directors remains the same. Whenever something is amiss, in most cases they would prefer to resign without washing dirty linen in public," said Pranav Haldea, managing director, Prime Database.

Market players say the regulatory turf for auditors has become challenging following Sebi's order in the Satyam matter. Also, last year's circular directing auditors to provide detailed reasons for their resignation has altered the nature of engagement between companies and auditors.

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"There is merit in the argument that auditors now, given the heightened regulatory oversight, have to spend more time and resources to conduct the audit work and thus want a higher fee. We have been tracking the audit fees. Even for many large companies, the audit fee is miniscule compared to their turnover. As such, there is surely scope for upward revision," Haldea added.