Big 4-Indian Auditors Spat Over New RBI Guidelines Turns Ugly

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Mumbai: The spat between the Big Four professional services firms and Indian auditors over the new RBI guidelines for appointments of statutory auditors has turned nasty with both sides accusing each other of serving self interest and trying to mislead key stakeholders.

The guidelines for commercial banks, NBFCs and housing finance companies are to be implemented in 2021-22.

The issue has further polarised the Big Four and Indian audit firms, and a study of the presentations, FAQs and detailed impact notes being shot off to the regulators, companies and industry associations from both sides point towards widely differing views on key contentious issues.

The Indian auditors say that joint audits will lead to better audit quality. "For last three decades, joint audits have worked fine in all public sector banks, insurance companies and PSUs. The PSUs are subject to oversight of CAG too. So why are joint audits a problem now?" asked Jeenendra Bhandari, partner, BGB & Co LLP.

But on-ground reality is different, say the Big Four auditors, the Indian firms are just hankering for business since they lost their most lucrative assignments during audit rotation. "Just look at the rising NPAs in the public sector banks having multiple joint auditors, increasing cases of divergences in accounts and a jump in IBC cases. It clearly points out that joint audits haven't really been effective in raising audit quality," says a partner in a Big Four affiliate.

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In most big joint audits, auditors divide responsibilities and both firms look at different set of numbers as per the ICAI rules and wherever Big Four firms — EY-Deloitte, PwC and KPMG — are involved, they end up doing critical parts of the audit as a safeguard and also take up disproportionate liability. "In case of an audit failure, the investor will sue a big firm or Ghanshyam Das & Co? We cannot take chances," said another partner in a Big four firm.

Then, the Indian auditors point at the concentration risk of a Big Four but the data doesn't support the argument.

According to Prime Database data, the Big Four firms audit less than 25% of the listed private banks after rotation (Bandhan, AU Small Bank, CSB Bank, DSB Bank and IDFC Bank). However, 75 Indian audit firms work with 14 listed public sector banks (Big four don't audit PSU banks). Out of the 196 listed NBFCs and HFCs, the Big Four firms perform less than 22% of the total audits.

The Indian firms and even RBI have spoken about the conflict of interest situation in many companies but Deloitte, PwC and Grant Thornton have announced that they won't globally do non-audit work with audit clients.

While the multinational auditors point out that the regulations will lead to mid-year transition challenges for companies and auditors due to different audit cycles, etc, especially so in the midst of a Covid-19 pandemic, the Indian auditors say it's a minor adjustment.

"In my view, any transition always poses a lot of questions and challenges for its practical application. We have seen this at the time of rotation of auditors clause under Companies Act, 2013, applicability of Ind AS, etc. But there is no reason for delay," said Bhandari.

Another major reason for confrontation has been the contention of the multinational firms that many Indian firms don't have the capability to handle complex and IT-driven audits.