Auditors Shifting Out of Jobs at Fin Cos to Comply with New RBI Guidelines

Central bank has shortened the audit terms at such firms to improve quality of oversight

Audit Trail

30 audit cos have rotated out citing the RBI guidelines

Many are doing revaluations & risk assessments of certain clients

Firms are undertaking complex analysis to check and balance their portfolio

Top firms are redeploying audit resources in non-audit areas

Vinod Mahanta & Sachin Dave

Mumbai: Auditors have begun shifting out of assignments at financial companies to comply with the latest guidelines from the central bank, which had shortened audit terms at high-street banks, other types of lenders and financial-services firms in its guidelines aimed at improving the quality of oversight.

As per Prime Database, more than 30 auditors have already rotated out from their assignments citing the RBI guidelines and multiple auditors have told ET that scores of such conversations are on with audit committees and a spate of resignations can be expected over the next month or two.

In some recent movements, EY affiliate SRB & Co has rotated out of IL&FS and Bajaj Finserv, while SR Batliboi & Co exited Repco Home Finance and Cholamandalam Financial Holdings.KPMG affiliate BSR & Co has quit MAS Financial, while Deloitte has rotated out of Capri Global Capital, L&T Finance holdings and Manappuram Finance.

On April 27, the Reserve Bank of India (RBI) had issued guidelines for appointment of statutory auditors of commercial banks, NBFCs and housing finance companies, mandating sweeping changes to provisions regarding selection of auditors, including cap limits, a cooling off period, non-audit curbs, and a 3-year tenure in a bid to bring greater transparency and raise audit quality.

Most of the exits in both big and small Indian audit firms are due to ending of the 3-year tenure, cap limits and conflict with non-audit work. The April circular notification had called for immediate implementation, having no transitional provisions (barring less than six months for NBFCs to implement).

The top firms have had to undertake an portfolio exercise with focus on which audits to get out from within a client group, where it made economic sense to offer lucrative permissible non-audit services——like cyber security, data privacy, IT, legal compliance and tax advisory— and which companies posed an association risk due to RBI's new tougher oversight rules.

Experts say that the big firms had to juggle their client and service portfolio but they didn't lose much.

"It's worked out very well actually for the big firms who have given up smaller unprofitable clients and signed up bigger ones or revised fees upwards significantly. The max 3 year term is what I hope gets reconsidered and aligned to Companies Act term of 5 years as a shorter term doesn't help anyone - user, preparer, auditor or regulator," said Vishesh Chandiok, CEO, Grant Thornton LLP.

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The big audit firms did struggle while dealing with conglomerates with a portfolio of finance companies because the guidelines say that an auditor could audit only one company.

The regulator has also placed restrictions on audit/non-audit services and has given a much wider definition of the 'group' where these restrictions apply thus complicating matters for the top firms which usually grab a wide variety of the work from such engagements.

"A lot of planning and analysis has gone into where we want to be engaged and what kind of services we want to offer," said a partner with a Big Four.

Experts say that smaller audit firms will get a good chunk of audits that are being rotated and Big Four affiliated audit firms will just focus on quality companies—maximum 250 to 300 companies between all—operating in the RBI regulated financial universe.

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