

# Listed firms saw exit of an auditor every 15 days

This is lower than 2.3 resignations per fortnight on average in FY20

SACHIN P MAMPATTA  
Mumbai, 19 October

**O**n an average, one auditor of a listed company has prematurely resigned every two weeks this financial year.

There have been 15 exits since April, shows a Business Standard analysis of data from corporate tracker primeinfobase.com.

This is still lower than the 2.3 resignations seen per fortnight on an average in 2019-20 (FY20). The exits reflect the stress that auditors continue to find themselves under, according to people watching the space.

The exits seem to have gathered momentum in recent times with five of them coming since September. Companies that saw exits recently include TGB Banquets and Hotels, AKG Exim, Asian Hotels (West), Value Industries and Videocon Industries.

Increased scrutiny from various regulatory authorities have played a role in making auditors more careful about their assignments in general, according to Shriram Subramanian, founder and managing director (MD) of InGovern Research Services, a corporate governance advisory firm. There is an increased regulatory onus on auditors who signed on financial statements in the last few years.

Subramanian pointed out that the National Financial Reporting Authority (NFRA) had observed deficiencies when it conducted an audit quality review of IL&FS Transportation Networks (ITNL).

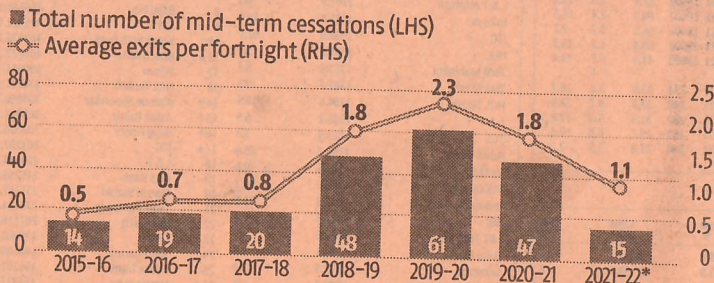
The NFRA, which monitors audit and accounting standards and ensures compliance, came out with its observations in September. This resulted in the resignation of ITNL's auditor SRBC & Co. (on October 5).

Separately, the Reserve Bank of India (RBI) had barred Haribhakti & Co. from auditing RBI-regulated entities for two years. This was announced on October 12 and was due to failure to comply with specific directions issued by the RBI.

Auditors would rather exit a company and let go of the fee than face



## COUNTING THE EXITS



Note: Data for 2021-22 is as of October 8

Source: Primeinfobase.com

regulatory action, said Subramanian. "All these are pressures," he added.

The NFRA report observed, among other things, that ITNL's financial exposure to subsidiaries, associates and joint ventures worth ₹3,346 crore was not properly valued. Also, the company's losses were understated by ₹2,021 crore in 2017-18, it said.

The audit firm resigned as ITNL auditor following the NFRA report, stating that it discharged "duties in good faith, in a bona fide manner, and in compliance with applicable laws and standards."

"This action has been taken on account of failure on the part of the audit firm to comply with a specific direction issued by the RBI with respect to its statutory audit of a systemically-important non-banking financial company," said the RBI direction barring Haribhakti & Co.

Many audit firms have been asking for higher fees in recent times. Differences of opinion over the amounts to be charged may also be a

factor in some exits, according to Amit Tandon, founder and MD of Institutional Investor Advisory Services India (IIAS). The firm advises investors on governance issues.

The top four audit groups' stand-alone audit fees have increased by 30.5 per cent over the last three years to touch ₹405.2 crore in 2019-20, shows data from primeinfobase.com.

Tandon added that while he'd like to believe that greater scrutiny and better checks and balances have improved the quality of data available to investors, it may be too soon to say so definitively. "I'm not sure I'd jump to the conclusion..." he said.

Commercial reasons figured in five out of the 15 mid-term cessations so far in FY21. Other reasons given for exit include preoccupation, delay in submission of financial results to auditors or disqualification by the Institute of Chartered Accountants of India (ICAI).

Except SRBC, companies and auditors did not immediately respond to a request for comment.