

Deloitte helped ITNL avoid disclosure of contingent liability by tweaking LOA: Grant Thornton forensic report

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THE FORENSIC report by Grant Thornton India on the books of accounts of IL&FS Transportation Networks India Limited (ITNL) reveals that its auditor — Deloitte Haskins and Sells — assisted the company to tweak the language of the Letter of Assurances (LOAs) issued by the company in a bid to avoid disclosure of contingent liability in its financial statements and then failed to flag the same in its audit reports. ITNL is a group company of financial firm IL&FS.

The issue relates to LOA/Letter of Comfort (LOC) issued by ITNL in order to help borrowing at the special purpose vehicle (SPV) level for projects facing cost overruns or that required bridge funding. The Grant Thornton report, seen by *The Indian Express*, shows that there are at least 19 instances where ITNL issued LOA/LOC for loans sanctioned by group company IL&FS Financial Services (in 16 instances) and other financiers (3 instances) — aggregating to over Rs 2,700 crore — to various external parties who were also vendors of ITNL.

In one instance, when ITNL issued the LOA, its then CFO and now its CEO, Dilip Bhatia, in an email to another ITNL official Prashant Agarwal on August 31,

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2015, asked to confirm if according to auditors, giving such a letter (LOA) will not be treated as guarantee (contingent liability) for ITNL. The very next day, Agarwal replied to the email where he stated that he checked the draft LOA with Deloitte and the draft has been updated after “incorporating Deloitte’s suggestions”.

In relation to this, the Grant Thornton report states, “It appears that Deloitte assisted them in a change of language in LOA to avoid disclosure of Contingent liability in financial statements.”

The report further states that in another mail in October 2015, an employee of ITNL wrote an email to its then company secretary Krishna Garg where it was noted that ITNL had to issue a letter of assurance to ICICI bank on behalf of Noida Toll Bridge Company Limited for availing a term loan of Rs 60 crore.

In the email, the employee also said that the LOA had been

cleared with Deloitte for checking on the contingent liability aspect.

With regard to this, Grant Thornton in its report noted, “It appears that Deloitte was aware about non-disclosure of contingent liability in the financial statements and no qualifications were raised in respect of the same point in audit reports.”

While an IL&FS spokesperson declined to comment on the questions mailed, Deloitte did not respond to the email sent with a detailed set of queries.

Sources say that a copy of the report that was submitted by Grant Thornton earlier this year, has been submitted with the Ministry of Corporate Affairs and also with the investigating agencies for further probe and action.

An email cited in the report also hints towards a possible influence from top management of IL&FS over such treatment of contingent liability. The report cites an email dated 15 April 2016 sent by Arun Saha (director at IFIN, a group company of IL&FS that was in the business of debt syndication and lending) to Ravi Parthasarathy (former chairman IL&FS Group) and Ramesh Bawa (MD & CEO, IFIN). In the said email, Saha states a plan of action to avoid ratings downgrade.

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