

Auditor may not have raised red flags at IL&FS behest: forensic report

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BARELY three months before IL&FS Group companies ran into trouble with the first default on August 28, 2018, SRBC & Co LLC (an arm of Ernst and Young), auditor to IL&FS Transportation Networks India Limited (ITNL), decided to exclude notes on the company's ability to continue operations indefinitely, which in accounting language is referred to as a going concern principle.

According to the Grant Thornton forensic audit report, SRBC & Co LLC had earlier taken a decision to make such qualifications in its audit report for 2017-18. But following a meeting with IL&FS and ITNL management, it did not include this in the Emphasis of Matter (EoM) paragraph. If an auditor decides it is important to draw the attention of the readers of financial statements to a particular item,

it points out the issue in an EoM paragraph in the audit report.

On May 26, 2018, the then COO of ITNL, Dilip Bhatia wrote an email to Hari Sankaran, vice chairman of IL&FS, informing him that the auditor was considering issuing an audit report with an EoM para on the 'going concern' issues of ITNL, a subsidiary of IL&FS Group.

Over the next couple of days, several emails were exchanged between KMPs (key management personnel) of ITNL and IL&FS on the matter and on May 28, Bhatia suggested that a presentation be prepared about ITNL's ability to raise additional funds from the market for a review by the auditors.

The Grant Thornton report notes that the ITNL and IL&FS management may have succeeded in convincing the auditors since no qualifications or notes in the EoM paragraph pertaining to 'going concern' issue

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was raised by the statutory auditor in its report.

The GT report also highlights that there was a meeting between EY (Ernst & Young) officials and senior management of IL&FS and ITNL on May 28, 2018 in which the going concern matter was discussed.

“Our review of the audit report for FY 2017-2018 for ITNL, it was noted that there were no qualifications or notes in the EoM paragraph pertaining to going concern issue raised by the statutory auditor (EY) in its audit observations..... Thus, it appears that though the auditors were aware about the going concern issues in ITNL, for the FY 2017-2018, they accepted the explanation of the then KMPs of ITNL, and potentially did not include the same in the auditor’s report,” said Grant Thornton in its report.

It is important to note that just five days earlier on May 21, 2018, Ravi Parthasarathy, then Chairman, IL&FS had acknowledged it was unfeasible to sustain ITNL cash flow requirements much longer in an email to key management persons of the IL&FS Group.

“It may not be feasible to sustain ITNL cash flow requirements much longer,” Parthasarathy wrote to Hari Sankaran (then vice-chairman IL&FS), Ramesh Bawa, Arun K Saha (Director on ITNL board), Ramchand Karunakaran (MD, ITNL) and Vibhav Kapoor (IL&FS Group CIO).

In the email that is part of the GT forensic audit report, he further said he has decided to formulate a scheme of his own and approach banks with it. “Based on my subsequent discussions with Mr Udayan Sen (former CEO of Deloitte India) the best way forward is to formulate a scheme of our own and approach banks with it. Before that, it would be useful to also meet with RBI and keep them advised. There does not appear much point in seeking their approval, as they have just got rid of all their earlier debt re-structuring schemes,” Parthasarathy wrote.

An IL&FS spokesperson declined to comment.

When contacted, SRBC & Co LLP said, “SRBC & Co LLP was appointed as a joint auditor for IL&FS Transportation Networks Ltd (‘ITNL’) in February 2017. Accordingly, we audited ITNL as joint auditor for the year ended March 31, 2017 and continued as the sole auditor for the year ended March 31, 2018. In respect of the audit of the consolidated financial statements, we performed our duties in accordance with SA 600 ‘Using the Work of Another Auditor’ and the Guidance Note on Audit of Consolidated Financial Statements issued by the Institute of Chartered Accountants of India (ICAI). Our limited review report for the June 2018 quarter for ITNL included an emphasis of matter on the ability of the Company to continue as a going concern. This emphasis of matter paragraph was also included in the audit report of the consolidated financial statements of Infrastructure Leasing & Financial Services Limited (IL&FS) for the year ended March 2018.”