

## IL&amp;FS FINANCIAL SERVICES FRAUD CASE

# NFRA bars ex-Deloitte CEO for 7 years, slaps ₹25-lakh penalty

This is the audit regulator's first disciplinary order

**KR SRIVATS**

New Delhi, July 22

The National Financial Reporting Authority (NFRA) has debarred Udayan Sen, a chartered accountant and a former CEO of Deloitte India, for seven years for professional misconduct as an engagement (or signing) partner in the statutory audit of beleaguered IL&FS Financial Services Ltd (IFIN) for 2017-18. An order issued by NFRA on Wednesday also slapped a penalty of ₹25 lakh on Sen.

## Significant order

The order is significant as it is the Authority's first since it came into being on October 1, 2018 as the all powerful body for disciplining auditors of listed entities, large unlisted firms, banks and insurance companies. It will be looked at with a lot of interest both by the CA Institute and its members and could well guide those in the profession in reorienting themselves to the expectations of the new regulator.

However, the order will not be given effect to till July 31 in the light of a Delhi High Court order on a writ petition filed by Sen, who had challenged the legal authority of the NFRA in issuing him a show-cause notice in January under Section 132(4) of the Companies Act, 2013.

The debarment means that Sen cannot be appointed auditor or an internal auditor nor undertake any audit in respect of

financial statements or internal audit of the functions and activities of any company or body corporate. Sen had earlier this year retired from Deloitte, Haskins & Sells, a CA firm that was the joint statutory auditor of IFIN for 2017-18.

## No due diligence

The professional misconduct, among other things, was related to Sen not exercising due diligence on communicating serious and material facts to the senior management like violation of net owned funds (NOF) requirement and regulatory non-compliance on maintaining minimum NOF of ₹2 crore by IFIN. It was also alleged that there was gross negligence on compliance with auditing standards.

IFIN was notified as a systemically important (SI) NBFC. How-

ever, nowhere in the audit files was there any evidence that auditors took note of the SI-NBFC character of IFIN into its risk assessment, thus failing to understand the auditee. Sen also did not challenge the management on any of the RBI reports and accepted the stand of the management, which amounted to gross dereliction of duty and negligence by the engagement partner.

## Deloitte 'surprised'

A Deloitte India spokesperson said: "As a professional firm, we are surprised and concerned that the NFRA has chosen to issue and make public an order against a former partner of the firm, in spite of the question of its jurisdiction being sub-judicial and awaiting adjudication and disposal by the Delhi High Court".

## BRINGING AUDITOR TO BOOK

- IFIN is a 100 per cent subsidiary of tainted Infrastructure Leasing & Financial Services (IL&FS)
- NFRA issues audit quality review report of IFIN statutory audit for 2017-18 in December 2019
- Report concluded that Deloitte, Haskins & Sells failed to comply with auditing standards
- NFRA issues show-cause notice to Engagement Partner Udayan Sen in January 2020
- Sen approaches Delhi High Court in February, challenges NFRA jurisdiction
- NFRA issues order on July 22 debaring Sen

