

Audit Firms Under Lens Studying NFRA Order to Ban Deloitte's Ex-Chief

They look to get a sense of which way regulator's decision could swing in their case

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Mumbai: The National Financial Reporting Authority (NFRA) order to debar Deloitte's Udayan Sen has set the alarm bells ringing across the audit firms currently under the investigation of the regulator. Audit firms and their lawyers are studying the 88-page order to understand the regulator's observations and get a sense of which way the NFRA's decision could swing in their case.

The NFRA report over the audit of IL&FS Financial Services (IFIN) has again put a spotlight on the confusion on

what services can be provided by an auditor to its clients. Sen, a former CEO of Deloitte India was the main engagement partner for Deloitte Haskins and Sells that was the auditor of IFIN.

According to experts, it is an old issue arising out of Section 144 of the Companies Act, 2013, that says auditors are not permitted to provide "management services". But there is confusion over the definition of management services and to which affiliates in a network firm the rules apply. The Institute of Chartered Accountants of India is working on a definition of what constitutes management services.

In India, the network firms – the Big Four – take up audits through affiliates that are separate legal entities.

In the absence of a clear definition, the network firms use the International Ethics Standards Board for Accountants definition with regards to services they can offer their audit clients. "The NFRA has used the term management services in a very expansive way," said an audit leader of an Indian firm. Also, what is bothering the auditors is also the NFRA's firm position that if courts do not grant a stay on the proceedings initiated by it, even if the matter is sub judice, it will go ahead with the orders.