

# BSR was not eligible to be appointed IFIN auditor: Regulator

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The audit regulator, the National Financial Reporting Authority (NFRA), has found lapses in BSR and Associates' audit of IL&FS Financial Services (IFIN) and said it was not eligible to be appointed as the statutory auditor of the firm.

In its audit quality review report released on Monday, the NFRA said BSR, a KPMG affiliate, violated the provision of non-audit services and had business relationships with the company at the date of its appointment.

A statement by BSR said, "We are concerned to note the conclusions by the NFRA in the audit quality review as they do not give due consideration to all the facts and circumstances that were transparently shared by us with the NFRA during their review."

BSR said that it was reviewing the report in detail and will determine its response in due course. "Audit quality remains the cornerstone of our profession and we recognise the challenges that lie ahead to improve audit quality across the profession in India. We remain committed to support the NFRA's efforts in this regard," the statement said.

The NFRA's report on the statutory audit for 2017-18 of IFIN said BSR and other entities in its network de facto use the KPMG trademark and brand name for all their audit and non-audit services, while making a "clearly futile attempt" to show a de jure (legal) separation from KPMG.

"The non-audit services provided technically by the KPMG-labelled entities of the network are clearly services indirectly provided by the BSR entities, and result in gross violations of the inde-

pendence requirements for auditors laid down under the Companies Act, as well as the Code of Ethics mandated by the Institute of Chartered Accountants of India," the NFRA said in its report.

BSR did not obtain sufficient and appropriate evidence, as required by the standards of audit, to support the numbers reported in the financial statements, according to the review report.

IFIN reported pre-tax profit of ₹201.96 crore for 2017-18 without providing for reversal of general contingency provision, unjustified valuation of a derivative asset, and non-provision for impairment in the value of investments. "The total of the three items mentioned above alone have led to an inflation of the profits of IFIN by ₹609 crore," the NFRA said.

The report has found violations with respect to assessment of the use of the going concern assumption by the management and improper evaluation of the risk of material misstatements.

The NFRA also found systemic and structural deficiencies in the information technology processes and platforms used by BSR. "... (They) arise substantially from a complete disregard for basic principles of IT security in the software used. This renders the audit documentation completely unfit for the intended purpose."

The NFRA also said that IFIN was not compliant with the minimum net owned funds and capital to risk assets ratio prescribed for a non-banking financial company of its type, as of March 31, 2018.

"BSR was convinced that the IFIN management was clearly in the wrong. However, they went along with the wrong numbers disclosed in the financial statements," the report said.



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