

Regulator finds lapses in BSR's audit of IFIN

Jayshree P. Upadhyay

jayshree.pyasi@livemint.com

MUMBAI

The National Financial Regulatory Authority (NFRA) on Monday said it had found lapses in KPMG affiliate BSR and Associates LLP's audit of IL&FS Financial Services Ltd (IFIN).

In its audit quality review report (AQRR), NFRA found the firm to be in violation of standards. This report will form the basis of any further disciplinary and penal proceedings against BSR.

NFRA had started evaluating the account in February 2019 following the collapse of Infrastructure Leasing and Financial Services (IL&FS) in October 2018. The government and NFRA were examining the role of auditors in the collapse, which left a ₹1 trillion hole in the financial system.

NFRA has examined the



NFRA had started evaluating the account after the collapse of IL&FS in Oct 2018. **REUTERS**

role of two auditors so far, including Deloitte Haskins and Sells LLP and BSR. It has barred Deloitte's former head Udayan Sen for seven years due to the lapses in the audit.

NFRA said IFIN was not compliant with the minimum net-owned funds and capital-to-risk-assets ratio prescribed for an NBFC of its type, as on 31 March 2018. The numbers for IFIN were highly negative and,

as per RBI norms, the NBFC had to disclose these numbers. IFIN's management contested RBI's methodology and reported positive numbers.

"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," said the NFRA report. "Thus, BSR failed to highlight a material misstatement of major magnitude and fundamental importance."

In response, BSR said: "We are concerned to note the conclusions by NFRA in the review as they do not give due consideration to all the facts and circumstances that were transparently shared by us. We are reviewing the report in

detail and will determine our response. Audit quality remains the cornerstone of our profession and we recognize the challenges that lie ahead to improve it across the profession in India. We remain committed to support NFRA's efforts in this regard."

The report will form the basis of any further disciplinary and penal proceedings against BSR

NFRA said that IFIN's profit of ₹201.96 crore in 2017-18 was after considering wrongful credit and not providing for certain non-performing accounts. The three items incor-

rectly accounted for by IFIN include its failure to provide for impairment of investments, unjustified valuation of derivative assets and general contingency provisions. As a result of incorrect accounting practices, IFIN's numbers were inflated by ₹609 crore.