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## **IL&FS and ITNL Looking to Replace Auditor SRBC & Co**



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Transportation Networks Ltd

(ITNL) are evaluating replacement of auditor  
SRBC & Co, an EY affiliate, as their statutory  
auditor after a damning audit quality review  
report by the National Financial Reporting  
Authority. **Sachin Dave** reports. **»» 14**

# IL&FS, ITNL Looking to Replace Auditor SRBC & Co

Move follows NFRA's report on lapses by the auditor and comes at a time when IL&FS' govt-appointed board is trying to sell ITNL assets

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**Mumbai:** Infrastructure Leasing & Financial Services (IL&FS) and subsidiary IL&FS Transportation Networks (ITNL) are evaluating replacement of auditor SRBC & Co, an EY affiliate, as their statutory auditor, after a damning audit quality review report by the National Financial Reporting Authority (NFRA).

The 343-page NFRA report released on Thursday said SRBC did not raise red flags in critical areas like going concern, evaluation of ITNL's investments and loans.

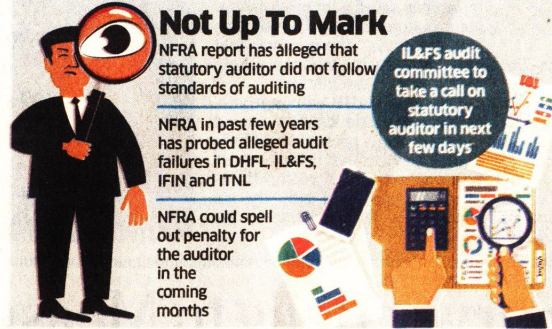
Responding to ET's query, IL&FS said discussions were ongoing around the continua-

tion or otherwise of the auditor, and that the audit committee would soon take a call.

"So far neither IL&FS/ITNL has asked SRBC to resign, nor has SRBC offered to resign. This is under examination and is being referred to the audit committee of ITNL for appropriate recommendation to the board of ITNL," IL&FS spokesperson Sharad Goel said.

EY did not respond till Sunday press time to an email seeking comment, sent on Friday evening. The National Financial Reporting Authority (NFRA), part of the Ministry of Corporate Affairs, has gone into detail how the auditor did not interpret some of the accounting entries as they ought to be.

This would mean that the fi-



financial statements prepared by ITNL and approved by the auditor did not represent the real picture.

This development comes at a time when IL&FS' government-appointed board is trying to sell ITNL's assets.

"Recasting of accounts of ITNL for the financial years 2013-14 to 2017-18 is also underway," the spokesperson said.

In Jan 2019, the National Company Law Tribunal had allowed the corporate affairs ministry to reopen the books of the IL&FS Group and its subsidiaries for the past five years under Section 130 of the Companies Act, to ascertain financial mismanagement.

The audit quality report said: "The company's losses during 2017-18 were understated by at least ₹2,021 crore on account of unjustified reversal of expected credit loss (ECL) on loans given to the SPV (special purpose vehicle) and on trade receivables, and due to incorrect impairment valuation."

It added: "This is excluding the impact due to incorrect treatment of the letter of comfort amounting to ₹2,654 crore, which should have been correctly treated as financial guarantees as per the accounting standards, the effect of which on profit/loss is not quantified."

The NFRA concluded that there was a "clear attempt" to obscure material information in the financial statements by "vague and misleading disclosures" by the management regarding the ECL reversal.

A former official at the Institute of Chartered Accountants of India alleged that the company executives who prepared the accounts and the audit committee that cleared those had not been held accountable.