

AUDIT

NFRA cites lapses in 'EY member firm' audit of IL&FS

ENS ECONOMIC BUREAU @ Mumbai

INDEPENDENT audit regulator National Financial Reporting Authority (NFRA) has identified serious lapses in SRBC & Co LLP's audit of IL&FS for FY18 in its Audit Quality Review Report (AQRR).

The AQRR observed that had the audit firm been vigilant, losses of tens of thousands of crores to banks, creditors and investors could have been averted. The shadow bank defaulted in repayment of bank loans and failed to meet commercial paper obligations, among others, in September 2018, causing a loss of investor confidence in NBFCs. SRBC & Co did not have adequate justification for issuing the Audit Report asserting that the audit was conducted in accordance with the standards of auditing (SA) and that the financial statements give a true and fair view. "The Audit Quality is thus seriously compromised due to the large-scale non-compliance with professional standards and regulatory and legal requirements, and the inappropriate reporting made by the Audit Firm," the report said.

It added that if the audit firm had been "vigilant, shown professional skepticism, sufficiently challenged management assumptions and claims and strictly complied with its audit responsibilities, such lapses by IL&FS perhaps could have been detected much earlier and the tens of thousands of crore of losses and haircuts that the banks, creditors, and investors were ultimately saddled with would have been averted."

For instance, the total value of investments shown in the standalone financial statements of IL&FS as on 31st March 2018 amounts to 12,320 Crore, almost 50% of its balance sheet size.