

**IL&FS STATUTORY AUDIT**

# NFRA faults EY member firm SRBC & Co for several deficiencies

Audit firm had no justification to give 'true & fair' view on financial statements, concludes AQR report

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The National Financial Reporting Authority (NFRA), the country's sole independent audit regulator, has found several deficiencies in the statutory audit conducted by EY member firm SRBC & Co LLP of Infrastructure Leasing & Financial Services (IL&FS) for the financial year 2017-18.

In its 390-page audit quality review report (AQR), NFRA has concluded that the audit firm did not have adequate justification for issuing the audit report asserting that the audit was conducted in accordance with the Standards of Auditing and the financial statements give a true and fair view.

**Audit quality compromised**

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 AQR said.

"These lapses prevented the investors, creditors and stakeholders from knowing on time the true and fair picture of the state of affairs of IL&FS. If the audit firm had been vigilant, shown professional scepticism, sufficiently challenged man-



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agement 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," the report added.

**Violative of norms**

Moreover, NFRA has also highlighted that the initial appointment of SRBC & CO LLP and its continuation as statutory auditor for 2017-18 was violative of the norms of independence. This is because its network (Ernst & Young Global Limited/EY) provided prohibited services to the IL&FS group and also had a business relationship with the auditee (IL&FS) group.

Based on the AQR observations, NFRA has concluded that

the audit firm (SRBC & Co LLP) has formed an opinion on the financial statements of the company and issued its audit report without obtaining reasonable assurance about whether the financial statements as a whole were free from material misstatement, whether due to fraud or error and thereby failed to meet the requirements of Standards on Auditing 700 (SA 700).

**AQR's findings**

It highlighted that Para 15 of SA 200 requires that the auditor shall plan and perform an audit with 'professional scepticism' recognising that circumstances may exist that cause the financial statements to be materially misstated. The AQR identifies instances such as impairment of investments, evergreening of loans, approval of related party transactions, recording of revenue, violation of capital and leverage ratios, and numerous other instances given in the AQR where the audit firm failed to exercise professional scepticism and failed to challenge the management assumptions and claims in key areas of financial reporting.

The AQR identified lapses in almost all stages of the audit, such as at the planning stage, substantive testing and adherence to independence norms.

NFRA has reviewed the said statutory audit done by SRBC & Co LLP of IL&FS for the FY 2017-18 following a reference made to the audit regulator by the Central Government on September 25, 2019.