

## 'DEFICIENT' AUDIT OF IL&amp;FS FIN SERVICES

# IL&FS Board Sends Show-Cause Notices to Deloitte Arm, BSR

## Book-keeping Troubles

**IL&FS' board** sends notices to Deloitte Haskins and Sells and BSR & Co

**Time till May 24** to file reply; hearing on May 29

**Deloitte arm** won't be tax auditor for two IL&FS group cos

**Deloitte Haskins & Sells** associated with IL&FS since inception, for more than a decade

**BSR & Co and Deloitte Haskins & Sells** had jointly audited IL&FS Financial Services in FY18

**BSR audited IFIN's** books in 2018-19

**IL&FS board** had recently written to MCA proposing punitive action against the two auditors

**Auditors are** being probed by SFIO and ED

## Dumps Deloitte Haskins & Sells as tax auditor for two of group's firms

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**Mumbai:** The board of Infrastructure Leasing & Financial Services Ltd issued notices to Deloitte Haskins & Sells and KPMG's audit partner BSR & Co, asking why they should not be removed for allegedly failing to highlight shortcomings while reviewing the books of subsidiary IL&FS Financial Services (IFIN).

The government-appointed board also discontinued with Deloitte Haskins & Sells as the tax auditor for two group companies, in what's seen as the first 'punitive action' taken against auditors in the IL&FS crisis, two people aware of the matter told ET. Deloitte Haskins & Sells (DHS) has been associated with IL&FS for more than a decade.

"DHS is engaged as a tax auditor with two of the group firms. In the wake of the evi-

dence against auditors put before the board, it was against DHS continuing as tax auditors of these firms. Subsequently, DHS was asked to step down," said one person.

BSR and DHS had jointly audited the books of IFIN for FY18, pertaining to the period before the IL&FS crisis first came to light in July 2018, when its roads unit faced difficulty in making repayments due on bonds.

"Both the audit firms have been show-caused under certain sections of the Companies Act and given time until May 24 to reply. Hearing on the matter will take place on May 29," said one official with knowledge of the matter.

The notices were issued under Section 140 of the Companies Act, which deals with the removal, resignation of auditor and giving of special notices. The board and Ministry of Corporate Affairs are of the view that the firms should be dealt with stringently, with punitive action including a five-year ban.

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**Removal of Deloitte arm as tax auditor is being seen as the first 'punitive action' against auditors in IL&FS crisis**

# Audit Firms 'Failed' to Issue Warnings

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IL&FS group chief communication officer Sharad Goel declined to comment. Deloitte Haskins & Sells and BSR didn't respond to emails till the time of going to press.

"The board has appointed audit firms to look into the alleged irregularities. The probe has also found instances of loans being granted in violation of RBI guidelines, and that the auditors misled the shareholders. The board has therefore show-caused them," one person said.

The IL&FS board had written to the Ministry of Corporate Affairs recently, proposing punitive action against the two auditors. In its report to the ministry, the board is said to have stated that the two firms had allegedly failed to issue warnings about shortcomings while auditing the books of IFIN.

"While the MCA will continue with its probe, the board is also taking action against the auditors in its capacity and therefore has show-caused them. This is to give the auditors an opportunity to give their version and the same would be put in the final report. Both the MCA and the board are of the

view that the firms should be dealt with stringently, including exploring the possibility of invoking the provisions of the Companies Act that allows punitive action including the possibility of debarring a firm for a period of five years. Sending the show-cause notice is part of this chain," the official said.

Earlier, the Serious Fraud Investigation Office, a wing of the ministry, had in its ongoing probe allegedly found that DHS failed to exercise due diligence.

Some of the anomalies that the auditor failed to note were mentioned in a 166-page interim report by audit firm Grant Thornton India. It identified 16 instances in which loans amounting to Rs 1,922 crore were apparently sanctioned on a negative spread (average cost of borrowing rate minus lending rate), or limited spread, for companies in financial distress.

In seven of these cases, the loans provided have either been written off or were to related parties for which loans were written off. In five cases, the loans were approved even after negative assessments by the infrastructure financier's risk team.