NFRA's Action against Deloitte

Why in news?

The National Financial Reporting Authority (NFRA) has taken action against an auditor who led the audit of IFIN in 2017-18.s

What is NFRA?

- The NFRA is a national regulator for auditors.
- It was set up in 2018 under the Companies Act, 2013.
- It was set up specifically to investigate the **role of auditors in frauds** in listed and large public interest entities.
- Previously, only the Institute of Chartered Accountants of India can bar chartered accountants from being appointed as auditors for a company.
- Also, the Securities and Exchange Board of India (SEBI) was permitted to bar CAs from auditing listed companies.

What is IFIN?

- IL&FS Financial Services (IFIN) is a subsidiary of IL&FS.
- It ran into deep financial trouble after running out of cash in 2018.

What action has been taken in this case?

- The NFRA has fined Udayan Sen, the former CEO of Deloitte Haskins and Sells, Rs 25 lakh for lapses in the audit.
- It also barred the auditor from auditing activities for seven years.
- The NFRA noted that Deloitte was providing such non permitted services to companies related to IFIN, including the IL&FS.
- This is the first order of its kind by NFRA.

What are the roles of auditors?

- The role of an auditor is to report on whether a company's financial statements have been reported in line with accounting standards.
- An auditor has to raise red flags in case the auditor notes any concerns regarding the statement of accounts or in any financial transactions entered into by the company.
- Auditors are also required to ensure that there is no conflict of interest in

their own appointment.

On what grounds can auditors be barred?

- Auditors can be barred for **professional misconduct** including not exercising due diligence, or for **gross negligence** in their duties.
- The Companies Act prohibits audit firms from providing certain **non-audit services to clients** that they are auditing.

What kind of action has been taken against auditors earlier?

- In 2018, SEBI barred an audit firm from auditing listed companies for two years.
- It barred two auditors from auditing listed companies for three years.
- They were barred for professional misconduct in the Satyam Computers scam, which came to light in 2009.
- But, the Securities Appellate Tribunal (SAT) quashed the order in 2019.
- SEBI has appealed against the order by the SAT in the Supreme Court.

Source: The Indian Express

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