

Centre set to overhaul audit regime to check lapses in governance

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- *The changes will be through rules under the Companies Act as well as through changes to auditing standards*

The ministry of corporate affairs is set to make major changes to the framework of statutory audits to ensure that managements cannot arm-twist or tempt auditors into overlooking governance lapses.

The proposed changes will mostly be through rules under the Companies Act as well as through changes to auditing standards so that no major change in the law is required, said two people familiar with the discussions in the government.

The ministry last month sought public comments on the broad issues around auditors' independence till 15 March. The new regulatory framework will draw from these suggestions, said one of the two people.

One of the key issues to be finalized is a proposed ban on audit firms from offering non-audit services to audit clients. The specific aspects to be finalized include whether this ban should be applicable to audit firms across the board or only to those above a specific turnover. Deloitte Haskins and Sells and Price Waterhouse Network of Firms in India (PW India) said last month they would no longer offer non-audit services to specific classes of audit clients after the ministry made it clear that it intended to ban non-audit services being offered to audit clients. Grant Thornton India stopped offering non-audit services to specific classes of audit clients in 2019. The government has to also look into whether it is okay to allow a professional services firm to incorporate a subsidiary for statutory audit, said the person cited earlier.

What the audit firms cited earlier said is that they would not offer non-audit services for a company that is an audit client. For other companies, they will be free to offer non-audit services.

In the case of big networks, revenue from non-audit services accounts for about 70% of total revenue and they will not be able to survive without it. The ministry will look at ways to ensure auditor's independence, eliminate conflicts of interest, strengthen shareholders' oversight into management's handling of its delegated responsibilities and send a strong signal to businesses that they cannot arm-twist or induce auditors into compromising ethical behaviour, even if it means a temporary disruption in the market for statutory audit or professional accountancy services, said the second person.

"If we have to progress to a \$5 trillion economy, the foundation has to be based on ethics and good governance, notwithstanding any temporary shocks," the person added.

The ministry wants to revamp the framework of auditors as they are key gatekeepers of good governance and several instances of audit failure had come up in the recent past, including in the case of Infrastructure Leasing and Financial Services Ltd.

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