

## **NFRA plans annual auditor checks**

The National Financial Reporting Authority (NFRA) is planning to annually undertake inspections of major audit firms, including the Big Four, to gauge their compliance, seeking to put in place an oversight mechanism of this kind for the first time, a person aware of the details told ET.

The thinking behind this, he indicated, is to discourage auditors and accountants from deviating from stipulated standards and processes, which will eventually help curb corporate frauds.

Such a move by the audit watchdog would be in sync with global best practices. The Public Company Accounting Oversight Board of the US, for instance, inspects each public accounting firm either annually or once in three years, depending on the number of companies they audit.

The regulator's plan comes after it released, late in December 2023, inspection reports on deficiencies in the audit processes of major firms such as BSR & Co, Deloitte Haskins & Sells, SR Batliboi & Co, Price Waterhouse Chartered Accountants LLP and Walker Chandniok & Co. NFRA's planned annual inspection will cover a set of auditors, especially those rendering professional services to big public companies, both listed and unlisted, the person said.

### **Aims and outcomes**

The regulator is likely to choose a judicious mix of audit firms every year for the inspection through the use of data analytics," said the person. Criteria would include the number of companies they audit, the size of their auditees and others.

All inspections of audit firms won't necessarily lead to investigations, ET has learnt. The intention is not a regulatory crackdown on auditors, but rather, an effort to ensure greater transparency and robustness in the way accounting is conducted.

However, "gross negligence" detected during the inspections could lead to further investigation.

Importantly, regular inspection will ensure swift remedial measures in case of lapses. Moreover, it will help both the regulator and auditors to remain engaged on key issues, according to those in the know.

In its recent inspection reports, the regulator has flagged instances of some rendering prohibited non-audit services.

NFRA typically enforces provisions of the Companies Act 2013, as well as audit standards and guidelines issued by the Institute of Chartered Accountants of India (ICAI). It has powers to act against auditors of all listed and large unlisted public limited companies for professional lapses. Besides, it can take up any audit case referred by the government. It can also recommend accounting and auditing policies and standards for adoption by the government. Before it was set up, ICAI had, more or less, exclusive jurisdiction over disciplining auditors. The ministry of corporate affairs and regulators such as Sebi have limited oversight over auditors.

*(Economic Times)*