

NFRA Points Out Deficiencies in Audit Affiliates of Big Four

Raises concerns about audit documentation, lack of transparency and independence issues

Vinod Mahanta

Mumbai: The National Financial Reporting Authority (NFRA) has issued an audit quality inspection report that has pointed out deficiencies and areas of weakness within the audit affiliates of the Big Four firms in a first-of-its-kind assessment.

In December 2022, NFRA had kick-started an audit quality inspection of several top audit firms.

The regulator's inspection had two main parts: first, it looked at how well the firms followed quality controls across the entire company, following a standard called SQC 11 issued by the International Auditing and Assurance Standards Board (IAASB). Second, it examined specific audit documents for annual financial statements audits ending on March 31, 2021.

In its report on SRBC & Co. LLP (a EY affiliate), the regulator has raised concerns related to audit documentation integrity issues with editable signed documents, insufficient leadership structure documentation, violations of independence policies regarding relationships with network members, and insufficient documentation for Engagement Quality Control Review and fraud risk as-

Under the Lens

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TOP 5 AUDIT FIRMS

- EY
- Deloitte
- KPMG
- PwC
- Walker Chandniok & Co

Oversee **310 of 498** assignments for Nifty500 cos as of **Mar 31, 2023**

Key areas singled out as they pose greater risk of material misstatement

assessment. After its investigation on M/s BSR & Co. LLP (a KPMG affiliate), NFRA pointed out issues with non-compliance with leadership responsibilities for quality and inadequate governance documentation, lack of transparency in disclosing KPMG Network entities and non-audit services provided impacting independence, and flaws in audit work paper control system allowing for modification after sign-off.

The NFRA's on-site audit inspection, carried out from December 2022

to January 2023, pinpointed three crucial audit areas in each engagement: revenue, trade receivables, and investments. These areas were singled out because they posed a greater risk of material misstatement.

The regulator's observations and the audit firm's responses were included in the final inspection report.

An EY spokesperson said, "We are committed to delivering sustainable, consistent high quality audits and consider NFRA's recommendations very constructive in supporting the objective of enhancing audit quality."

In the case of Deloitte Haskins & Sells LLP, NFRA identified a few audit quality issues, including missing independence confirmations, failure to reassess audit risk, omission of the Engagement Quality Control Review Docket, and the provision of non-audit services that posed self-review threats. Furthermore, there were concerns about missing documentation for audit evidence regarding investments.

In its assessment of PwC, NFRA identified several concerns, including non-compliance with SA 260 related to auditor communication with governance, inconsistencies in audit documentation formats and storage, absence of criteria for selecting audit areas, limitations on non-audit services for NFRA governed clients, and deficiencies in specific audit engagements related to financial reporting control, IT controls, accounting policy disclosure, and impairment loss allowance.