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RBI's norms pit Indian auditors against MNCs

Synopsis
On April 27, the central bank had issued guidelines for appointment of statutory auditors in commercial banks, non-banking financial companies and housing finance companies that included a cap on the number of audits by an audit firm, joint audits in some businesses, a cooling off period, non-audit restrictions, and a reduced three-year audit tenure.

Top multinational auditing firms in the country are at loggerheads with their Indian peers once again, with the former lobbying to make the **Reserve Bank of India** to reconsider its latest auditing regulations that open up new opportunities for smaller Indian firms.

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This will curtail growth opportunities for multinational firms and create substantial transitional issues, but Indian firms a chance to get more audit business from the lucrative financial sector currently dominated by the Big Four.

Multinational auditors have started reaching out to RBI, industry associations like **CII** and FDCI, and even larger financial companies to highlight transition problems and risks of joint audits.

Indian firms have launched a counter-offensive by supporting the central bank's move and taking their case to the regulator and financial companies directly and through industry associations such as **Assocham**.

"Indian auditing firms (IAFs) wholeheartedly support this RBI circular and we believe that going forward these regulations would become a model for other regulatory bodies like **Sebi** (stock market regulator) to come out with similar regulations for top 500 listed companies, to start with," said Jeenendra Bhandari, partner at advisory and accounting firm MGB.

"In my view, any transition always poses a lot of questions and challenges for its practical application," he said, shrugging off multinationals' complaints.

The big fight is over joint audits that have been made mandatory for all entities—commercial banks, NBFCs and housing finance companies—with an asset size of Rs 15,000 crore plus as of March 2021.

“Then there are operational issues like how to effectively divide responsibility of auditing IT systems between joint auditors,” the person argued. “And the PSU bank joint audits have shown that joint audits haven’t necessarily worked.”

Indian firms counter that the central bank move is intended to decrease concentration risk in the audit market.

“There is too much concentration of audit with a few firms driven mainly by global brands which has not necessarily resulted in better quality audits,” said Suresh Surana, founder of RSM Astute. “It is evident that the RBI wants to broaden the audit concentration and give an opportunity to high quality home grown Indian firms.”

The RBI guidelines will definitely be a big boost to Indian firms that lost most of their marquee clients to multinational firms during the Companies Law 2013 mandated audit rotation in 2017-18.

“Mandatory joint audit and three-year time limit will open up the market for many firms and they should gear up capacity to serve,” said Vishesh Chandiok, CEO of Grant Thornton Bharat LLP.

Indian audit firms feel that the Big Four firms are making an unnecessary fuss over joint audits since these have been in practice in all public sector banks, all insurance companies (private and public) and large public sector undertakings since more than three decades and have been working fine.

The new RBI regulations will, however, lead to complex transition problems for both big audit firms and financial companies they are currently auditing.

Some auditors believe that the central bank should provide clarifications on contentious issues and allow more time for transition.

“It would be better to defer implementation to FY23 versus in FY22,” Chandok said. “For example, one-year cooling off for non-audit services will limit choice on who is independent for FY22. It's also better to stagger joint audit appointments so that the three-year termination does not happen simultaneously for both joint auditors.”

There is also a real danger that a number of audit firms with necessary skill sets, capacity and capability may not qualify to be appointed, given the various eligibility restrictions listed in the RBI circular, experts said. This would limit the choice for auditing committees.