Firms appoint new auditors in shift to meet new standards

42 firms have already appointed new auditors or have brought on board a second auditor to ease the transition process

As Indian firms transition towards a new system of auditor rotation, which comes into effect in April 2017, companies have started to plan ahead to ensure a smooth transition.

Companies will have to appoint a new statutory auditor if the current auditing firm has been associated with the company for 10 consecutive years or more, according to the Companies Act, 2013.

Forty-two companies have already appointed new auditors or have brought on board a second auditor starting from the current financial year to ease the transition process, according to data from Prime Database.

Companies such as Bharat Heavy Electricals Ltd, Berger Paints Ltd, Fortis Healthcare Ltd, Gujarat Pipavav Port Ltd, Jet Airways (India) Ltd, Kotak Mahindra Bank Ltd, Larsen Toubro Ltd, Mindtree Ltd, New Delhi Television Ltd, and Ultratech Cement Ltd have initiated the process from the current financial year, Prime Database said.

Shyamak Tata, partner, Deloitte Haskins and Sells Llp, says that companies are preparing ahead of time to mitigate any challenges arising out of a change in auditor.

“We see different trends emerging based on the nature, complexity, geography of operations, need and size of the business. Some companies have been early in the process and have already changed their auditors within the transition period. Deloitte continues to be involved in the fair share of discussions with various companies. As the change in auditor firm is an important decision impacting the group, most large corporations are at various stages in the evaluation process,” says Tata.

Data from Prime Database shows that companies such as Amara Raja Batteries Ltd, APL Apollo Tubes Ltd, Fortis Healthcare Ltd, Greaves Cotton Ltd, Honeywell Automation India Ltd, Larsen and Toubro Ltd, Nitin Fire Protection Industries Ltd and South Indian Bank Ltd have appointed Deloitte Haskins and Sells as the new auditor or the joint auditors from financial year 2015-16.

On 1 April 2014, the ministry of corporate affairs (MCA) notified the rules to make the rotation of auditors mandatory for listed companies, unlisted companies with a share capital for more than Rs.10 crore, all private companies with paid-up capital of Rs.20 crore or more, and all companies with public deposits of Rs.50 crore and above.

Companies were given a period of three years to adjust to the new rules.

In the interim, some companies are appointing joint auditors, said Yogesh Sharma, partner, Grant Thornton India Llp. This allows the new auditor to understand the systems and practices of the company before the old auditor completely moves out.

“Certain companies have already appointed a joint auditor along with the existing auditor and it is a good way to manage the transition. A typical large group may have a number of listed and unlisted entities where change of auditor is needed. One of the good ways to transition, as stated above, is through a joint audit this year and then make the change next year. Another way could be to appoint a new auditor for a subsidiary company and then expand it to the whole group,” says Sharma.

In February, an analysis by Prime Database showed that the top 10 audit firms audited as many as 524 companies among the 1,437 companies listed on the National Stock Exchange of India Ltd.

Deloitte was the top auditing firm in 2013-14, with 149 companies, followed by EY (formerly Ernst & Young) with 109 clients. KPMG and PricewaterhouseCoopers came next with 64 and 63 companies, respectively. Together they are known as the “Big Four” in audit circles.

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