

SEBI tightens norms to deal with abrupt resignations of auditors

Samie Modak Last Updated at October 19, 2019 01:56 IST

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The Securities and Exchange Board of India (SEBI) on Friday tightened the rules around resignations of auditors from listed companies.

The market regulator has said that an auditor will have to provide review — limited or complete audit report — for the quarter during which it resigns. For instance, if the auditor decides to resign in August 2019, it will have to issue the review for the quarter ended September 30, 2019.

Similarly, if the auditor signs the audit report for all the quarters of a financial year, except the last quarter, then it will have to finalise the audit report for the entire financial year. SEBI has said if the listed company or its material subsidiary does not provide the required information, the auditor shall provide an appropriate disclaimer in the audit report.

Further, the regulator has said if the management of a listed or its material subsidiary hampers the audit process, the auditor should approach the chairman of the audit committee of the company.

The audit committee then has to discuss the matter and communicate its views to the management and the auditor. The regulator has also prescribed a format for obtaining information from auditor upon resignation. This includes detailed reasons for resignation and information requested but wasn't provided.

SEBI's latest circular on resignation of statutory auditors comes following a spike in auditors at listed firms in recent years. According to data provided by NSE Info base, the year 2018 saw mid-term cessations of 48 auditors and another 16 so far this year. In the past, SEBI has fumed over the growing instances of abrupt resignation, particularly the when the auditor cites "pre-occupation" as the reason.

"Resignation of an auditor of a listed entity / its material subsidiary before completion of the audit of the financial results for the year due to reasons such as pre-occupation may seriously hamper investor confidence and deny them access to reliable information for taking timely investment decisions," said SEBI in a circular. Most of the guidelines issued by SEBI are from a discussion paper it had floated in July.

New guidelines

- All listed entities and material subsidiaries told to ensure that an auditor issues the audit report, if he or she is tendering resignation, within 45 days from the end of a quarter
- Those resigning after 45 days from the end of a quarter have to issue audit reports for the quarter concerned as well as the successive quarter
- Auditors who have signed the limited review or audit report for the first three quarters will need to issue the audit report for the last quarter as well as for the complete financial year before resignation
- Those rendered disqualified as per the provisions of the Companies Act will not be required to comply with the directions