Govt mulls banning non-audit services by statutory auditors, breaking oligopoly of Big Four

2 min read . Updated: 07 Feb 2020, 10:05 PM IST Gireesh Chandra Prasad

At present, the Companies Act, 2013, prohibits statutory auditors from directly or indirectly offering eight specified services.

The Ministry of Corporate Affairs is considering a series of tough steps to safeguard the independence of statutory auditors including a possible ban on these entities offering any non-audit services.

The ministry is also exploring ways to break the “oligopoly" of the Big Four accounting firms to make the audit market more competitive and transparent, including possibly by limiting the number of statutory audits one firm can take up, according to a discussion paper prepared by the ministry of corporate affairs. Mint has seen a copy of the discussion paper.

The paper, which will form the basis for consultation among various regulatory bodies and the government, lists ban on providing non-audit services by auditors and disclosure of previous relationship with the audit client in the audit report as ways of improving audit quality. It also says that audit fees ought to be based on reasonable estimates of time and expertise required in the audit work so that firms aggressively bidding for audit contracts do not cut corners in their service.

In order to tackle the economic concentration of large audit firms, the ministry is seeking views from regulators if the number of audits under one audit firm or auditor could be reduced and whether the number of partners under one audit firm can be fixed. The idea is to enable homegrown audit firms to grow.

Mint had reported on 19 May, 2019 that the government was working on a plan to restrict audit firms from accepting juicy non-audit assignments from statutory audit clients as part of steps to improve the quality of statutory audit.

At present, the Companies Act, 2013, prohibits statutory auditors from directly or indirectly offering eight specified services, including internal audit and actuarial and investment banking services, to the companies they audit. The idea is to further tighten this restriction. The lucrative services that are outside the current restrictions include tax audit, secretarial services, transfer pricing-related services, and mergers and acquisitions advisory.

The discussion paper said that one of the reasons that lead to auditor independence getting compromised was the fact that although auditors are appointed by shareholders of companies, the effective power of their appointment and dismissal lie with the company management. This forces the auditor to be more sympathetic to the management than required. “Auditor’s responsibility is not limited to shareholders, as audit report is a public document relied on by various stakeholders, including financial institutions, government and the general public," the paper noted.

Another factor that impacts auditor independence is his or her financial or other interest in client's business which leads to conflicts of interest. This, the paper said, leads to the auditor turning a blind eye to potential risk or at the extreme, ignore an impending or occurred fraud.