

Centre to amend Companies Act, tighten audit regime soon

Updated: 16 Aug 2022, 06:00 AM IST

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The ministry of corporate affairs will soon introduce a set of tough measures to tighten the framework of statutory auditors aimed at ensuring their independence.

The measures are aimed checking the recurrence of situations such as the 2018 failure of Infrastructure Leasing and Financial Services Ltd. (IL&FS) group firms.

The ministry has completed consultation on a report on audit reforms submitted to finance and corporate affairs minister Nirmala Sitharaman in March by an expert committee. The drafting of a bill to amend the Companies Act will start now, said a person familiar with the discussions in the government, indicating the government's resolve to raise the bar on statutory audit.

Audit reforms will now become a priority for the ministry as reforms in other areas have reached an advanced stage—a bill on amendments to the Competition Act has already been introduced in Parliament and work is at an advanced stage on bankruptcy reforms.

The ministry has received feedback favouring strengthening the audit framework, said the person quoted above, who spoke on condition of anonymity. An email sent to the spokesperson for the corporate affairs ministry on Friday remained unanswered at the time of publishing.

One of the proposals is to tighten the audit framework by disallowing statutory auditors from performing non-audit services to their audit clients which are public interest entities such as listed companies, large companies and insurance or banking companies. There could be some relaxation in the case of non-public interest entities.

The proposals also include auditors' mandatory disclosure in the audit report of previous relationship with the audit client, compulsory joint audits in certain classes of companies and compulsory impact analysis of any adverse remark or qualification in the audit report.

The proposed bill is also expected to stipulate a cooling-off period of a year for auditors before they take up senior positions in the company they audited or in any of its associates. Also, auditors will have to explain in detail the circumstances of quitting an audit assignment such as non-cooperation from the company, fraud or severe non-compliance.

Proposed amendments to the Companies Act are also expected to include measures aimed at improving the ease of doing business.