

NFRA issues Audit Quality Review (AQR) report of statutory audit of IL&FS Transportation Networks Limited (ITNL) for FY 2017-18

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The National Financial Reporting Authority (NFRA) has issued Audit Quality Review (AQR) report of the statutory audit of IL&FS Transportation Networks Limited (ITNL) for the Financial Year 2017-18.

The statutory auditor for this engagement was SRBC & Co LLP, Chartered Accountants.

The AQR has been conducted pursuant to Section 132(2)(b) of the Companies Act, 2013 and NFRA Rules, 2018 which require the NFRA to, inter alia, monitor and enforce the compliance with accounting standards and auditing standards India.

Some of the significant conclusions of NFRA in the report are as follows:

- i. The initial appointment of SRBC & Co LLP, and the continuation of SRBC & Co LLP, as statutory auditor of ITNL, was prima facie illegal and void.
- ii. The Audit Firm has failed to appropriately and sufficiently evaluate the use of the going concern basis of accounting by the Management and has thus failed to note the implications thereof in the Auditor's Report.
- iii. ITNL's financial exposure to its subsidiaries, associates and joint ventures amounting to Rs. 3,346 crore was not properly valued as per the applicable Accounting Standards.
- iv. The Company's losses during 2017-18 were understated by at least Rs. 2021 crore on account of unjustified reversal of Expected Credit Loss (ECL) on loans given to the SPV and on trade receivables, and due to incorrect impairment valuation. This is excluding the impact due to incorrect treatment of the letter of comforts amounting to Rs 2654 crore, which should have been correctly treated as financial guarantees as per the accounting standards, the effect of which on profit/loss is not quantified.
- v. The Audit Firm's EQC partner has failed to report material misstatements known to him to appear in a financial statement with which he is concerned in his professional capacity and has not exercised due diligence to obtain sufficient information to objectively evaluate the significant judgements of the Engagement Team and conclusions reached by them.
- vi. The Audit Firm has failed to maintain documents as per SA 230. The integrity of the Audit File is questionable due to tampering and inconsistency pointed out at several places in the AQR. AQR report is available at the following URL:

<https://nfra.gov.in/sites/default/files/AQRR%20ITNL.pdf>

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