



राष्ट्रीय वित्तीय रिपोर्टिंग प्राधिकरण
National Financial Reporting Authority

INSPECTION REPORT
2023

Audit Firm: M/s Deloitte Haskins & Sells LLP
Firm Registration No. 117366W/W100018
Inspection Report No.132.2-2023-07
March 28, 2025

NFRA, 7th Floor,
HT House, 18-20, K. G. Marg, New Delhi 110001

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PART A

Executive Summary

Section 132 of the Companies Act, 2013 (the Act) mandates the National Financial Reporting Authority (NFRA), inter alia, to monitor compliance with Auditing Standards, to oversee the quality of service of the professions associated with ensuring compliance with such standards, and to suggest measures required for improvement in quality of their services. Under this mandate, NFRA initiated audit quality inspections of the Chartered Accountant firm M/s Deloitte Haskins & Sells LLP in March 2024. The scope included a review of the remedial actions taken by the Firm for the observations reported in the last report, and a thematic review of three selected audit engagements of financial statements for the years ending 31.03.2022 and 31.03.2023, focusing on three significant audit areas, viz., Internal Financial Control over Financial Reporting on Revenue, Related Party Transactions and Impairment of Non-Financial Assets, due to their inherent higher risk of material misstatement. The Inspection included an on-site visit in September 2024, discussions with the Audit Firm personnel including the engagement teams of select audit engagements, review of policies and procedures and examination of documents. The observations were conveyed to the Audit Firm and replies were received. A Draft Inspection Report was also issued to the Firm, for which a written response was received. The key observations in this report are summarised as follows:

- a. The Audit Firm has adopted a revised networking agreement wherein the Audit Executive Committee has the ultimate responsibility for Quality Control and Risk Management. The Audit Firm has also improvised the procedure to ensure personnel independence. Rather than preparing separate EQCR docket, now the Audit Firm has also started to include EQCR work in the audit file itself. The internal consultation memo of the Audit Firm also includes the basis / rationale of the final conclusions unlike observed by NFRA in its last inspection. NFRA recognizes that the Audit Firm's voluntarily adopted Non-Audit Service (NAS) guidelines regarding not providing prohibited NAS is a first step, but NFRA expects full compliance to Section 144 of the Companies Act, 2013. Part B of this Report summarises these changes and other remedial measures taken by the Firm.
- b. In the engagement files selected for review in the current inspection cycle, observations regarding not performing sufficient appropriate audit procedures for the verification of related party transactions being on arm's length basis and also regarding inadequate evaluation of competence, capability, objectivity and work of the auditor's expert as per the requirements of SA 620 have been observed. This is detailed in Part C of this report.

Inspection Overview

1. Section 132 of the Act, inter alia, mandates the NFRA, to monitor compliance with Auditing and Accounting Standards, to oversee the quality of service of the professions associated with ensuring compliance with such standards, and to suggest measures required for improvement in the quality of their services. The relevant provisions of NFRA Rules prescribe the procedures in this regard, which include evaluation of the sufficiency of the quality control system of auditors and the manner of documentation of their work. Under this mandate, NFRA initiated audit quality inspections in March 2024 (Inspection Cycle 2023). The overall objective of audit quality inspections is to evaluate compliance of the Audit Firm / Auditor with auditing standards and other regulatory and professional

requirements, and the sufficiency and effectiveness of the quality control systems of the Audit Firm/Auditor, including:

- (a) adequacy of the governance framework and its functioning.
 - (b) effectiveness of the firm's internal control over audit quality; and
 - (c) system of assessment and identification of audit risks and mitigating measures
2. This year's inspections involve a review of the remedial action taken by the Firm in response to the previous inspection observations and a test check of audit engagements performed by the Audit Firm during the Financial Years 2022 and 2023.
3. Inspections are intended to identify areas and opportunities for improvement in the Audit Firm's system of quality control. Inspections are, however, not designed to review all aspects and identify all weaknesses in the governance framework or system of internal control or audit risk assessment framework; nor are they designed to provide absolute assurance about the Audit Firm's quality of audit work. In respect of selected audit assignments, inspections are not designed to identify all the weaknesses in the audit work performed by the auditors in the audit of the financial statements of the selected companies. Inspection reports are also not intended to be either a rating model or a marketing tool for Audit Firms.

Audit Quality Inspection Approach

4. Selection of Audit Firms for the 2024 inspections was based upon the extent of public interest involved, as evidenced by the size, composition and nature of the audit firm, the number of audit engagements completed in the year under review; complexity and diversity of preparer's financial statements (henceforth, Companies) audited by the firm and other risk indicators. **M/s Deloitte Haskins & Sells LLP**, an Indian firm which is part of Deloitte Touche Tohmatsu Limited (DTTL) network, was one of the audit firms selected as per the above parameters.
5. The selection of individual audit engagements of the Audit Firm, Deloitte Haskins & Sells LLP, was largely risk-based, based on financial and non-financial risk indicators identified by NFRA. Accordingly, the Audit Files in respect of three (3) Audit Engagements relating to the statutory audit of Financial Statements for the years ending 31.03.2022 and 31.03.2023 were reviewed during the inspection.
6. The scope of the inspection was as follows:
- a. Review of the remedial measures and improvements made in response to the previous inspection observations for firm-wide quality controls to evaluate the Audit Firm's adherence to SQC 1, Code of Ethics and the applicable laws and rules.
 - b. Review of individual Audit Engagement Files- A sample of three (3) individual audit engagement files pertaining to the annual statutory audit of financial statements for the years ending 31.03.2022 and 31.03.2023 was selected. Three significant audit areas were identified in respect of each audit engagement viz., internal financial control over financial reporting pertaining to revenue, related party transactions and impairment of non-financial assets, due to their inherent higher risk of material misstatement.

The selected sample of three individual audit engagements is not representative of the Firm's total population of the audit engagements completed by the Firm for the year under review.

Inspection Methodology

7. An entry meeting for the current year's thematic inspection was held with M/s Deloitte Haskins & Sells LLP on 2.5.2024 and 3.5.2024 at the NFRA office, during which concerned Engagement Teams arranged for the walkthrough of the audit files, which were later on reviewed by the inspection team. Discussions were also held with the engagement teams seeking their clarifications on the observations of the inspection team. The on-site inspection was carried out in the month of September 2024 to review the progress in response to the previous inspection report and a detailed response in this regard from the Audit Firm was obtained.
8. The areas of weaknesses or deficiencies of the Audit Firm, included in the inspection report, should be viewed as areas of potential improvement and not as a negative assessment of the work of the Audit Firm unless specifically indicated otherwise.

Audit Firm's Profile

9. M/s Deloitte Haskins & Sells LLP, a Limited Liability Partnership, is part of formal network M/s Deloitte Haskins & Sells & Affiliates, which is registered with The Institute of Chartered Accountants of India (ICAI). It is a network of fifteen audit firms. The Firm is also a part of the Deloitte Touche Tohmatsu Limited (DTTL) Network.

Acknowledgement

10. NFRA acknowledges the cooperation of the Audit Firm during all stages of the inspection.

PART B

Review of Firm-Wide Audit Quality Control System – Compliance with Previous Year's Inspection Observations

A. Leadership of the Network

11. During the previous inspection held in the year 2022, NFRA had observed that there was no Board to oversee the Network, its activities, and its officers as envisaged in Clause 10 and 11 of the Networking Agreement signed by DHS LLP and other member firms. The Audit Firm was advised by NFRA to comply with the terms of the Networking Agreement in force.
12. During the onsite inspection held in September 2024, NFRA noted that the Audit Firm has adopted a revised networking agreement effective from 02.01.2024 among the partnership firms. As per the new agreement, the Audit Firm has an Audit Executive Committee (Audit ExCo), that has the ultimate responsibility for the system of Quality Control and Risk Management. The Committee is reportedly responsible for the audit business, day-to-day

operations, roll out & maintenance of tools and technology, evaluating markets and industries, talent acquisition, talent management, evaluation & learning of the talent. This is in compliance with the observations made by the NFRA in its last inspection.

B. Independence requirements

a) Independence of the Personnel

13. In the previous inspection held in the year 2022, the NFRA observed that the independence declarations of some of the members of the Engagement Team and others in respect of audit engagements reviewed for FY21 were not available in the audit files processed through the audit tool - Engagement Management System (EMS).
14. During the onsite inspection held in September 2024, the Audit Firm apprised of a new audit tool, named “Omnia”, to which the major audit work is being shifted. The Inspection team took a walkthrough of this new audit tool. It was observed that there is an automated control within the “Omnia” tool itself, according to which assessment and confirmation of the independence is required to be done at the time of first login by ticking the checkbox meant for it. Considering these measures by the Audit Firm, it can be concluded that there is a mandatory systemic requirement by all the members of the Engagement Team and others to declare their independence prior to accessing this audit tool for performing the audit. This is in compliance with the observations made by the NFRA in its last inspection.

b) Policy related to Non-audit Services

15. As per the last Inspection Report of NFRA, the Audit Firm had voluntarily adopted the Non Audit Service (NAS) guidelines effective from 1st April 2020, for not providing prohibited non-audit services. On perusal of the policy, NFRA notes that the policy is applicable to only Indian Firms of the network (i.e. to the firms of Deloitte Haskins & Sells & Affiliates) and not to all of the participating firms of the international network (i.e. Deloitte Touche Tohmatsu Limited (DTTL)). The policy states that *“this section provides the policy and related guidance (applicable to Deloitte India entity) to provide Non-Audit Services [“NAS”] (which are permissible under prevailing Indian laws and regulations but will be voluntarily restricted by the Deloitte India entity) to Public Interest Entities [“PIEs”] defined in Paragraph 1.4, whose statutory financial statements are audited by Deloitte India entity in accordance with the laws and regulations in India”*. (Emphasis Added). Therefore, the Policy is not comprehensive and exhaustive in nature. Though the Audit Firm has conveyed that they will update their policy as per Rule 3 of the NFRA Rules, 2018 and share the revised policy with NFRA, NFRA notes it as a first step but progressively NFRA expects full compliance to Section 144 of the Companies Act, 2013.

C. Engagement Quality Control Review Procedures

16. During the previous inspection held in the year 2022, NFRA observed that in one of the selected audit engagements, the evidence relating to performance of EQCR, i.e. the EQCR docket (summary of EQCR work performed) was not made part of the EMS. The Audit Firm was advised to ensure that the EQCR docket to be incorporated in the EMS as per timelines specified in the Firm’s Quality Policy Manual.

17. During the onsite inspection in the month of September 2024, NFRA selected three engagements on a sample basis. Out of these three engagements, audit files of one engagement was maintained in the audit tool “Omnia” and for two engagements, audit file were maintained in the audit tool “Engagement Management System (EMS)”. NFRA observed that now the EQCR work is being documented in the audit files itself. Hence, the Audit Firm has implemented remedial measures as suggested by NFRA in its previous inspection report.

D. Consultations

18. During the previous inspection held in the year 2022, NFRA observed that in one of the engagements reviewed, the consultation memo in the EMS mentioned only about the decision but did not capture the basis / rationale, based on which such decision had arrived. The Audit Firm was advised to comply with Para 56 of SQC 1 and its Policy Manual on Consultation which says, *“The Partner (or his or her designee) who initiates consultation should be responsible for appropriate documentation of such consultation, including the relevant facts, issues raised, individuals consulted, conclusions reached, and supporting rationale for the conclusions”*.
19. During the onsite inspection, walkthrough of the Audit and Accounting Consultation Portal (‘the Portal’) was provided by the Audit Firm. For the selected few samples, it was observed that the ET raises consultation requests on the Portal, including populating of the information in the Portal, such as engagement details, details of the ET and subject matter of consultation etc. In addition, an initial memo discussing the matter on which consultation is sought, the preliminary conclusion of the ET and the technical literature on which the ET has relied upon, duly approved by the EP and the EQCR, is also uploaded. The concluding Memo includes the views of all the parties to the consultation. The final view / results that is to be implemented is documented in the final Memo along with the basis / rationale of the conclusion arrived. This is in compliance to the observations raised by NFRA in its last inspection.

PART C

Review of Individual Audit Engagement Files Focusing on Selected Areas of Audit

20. This section discusses deficiencies observed in three selected individual audit engagements and focused on three audit areas viz., internal control over financial reporting pertaining to revenue, related party transactions and impairment of non-financial assets for detailed review. Certain critical audit procedures performed by the Firm’s engagement team in respect of these audit areas were reviewed viz., identification and assessment of risk of material misstatement, internal controls, design and execution of audit procedures in response to assessed risk (test of controls, test of details, sample sizes, and analytical reviews etc.), accounting estimates, accounting policies, disclosures and evaluation of identified misstatements. The observations are discussed below.

A. Internal Control over Financial Reporting (ICFR) pertaining to Revenue

21. No observation.

B. Related Party Transactions (RPTs)

22. In all the three Engagements reviewed, NFRA observed that in the Board's Report / Form AOC 2 / Notes to Financial Statements, Management had mentioned that all the related party transactions entered into by the Companies were at arm's length basis. On perusal of the audit files, we note that arm's length testing was not comprehensive in nature. As per Para 24 of SA 550, the Audit Firm was required to obtain sufficient appropriate audit evidence about the management assertion that related party transactions were conducted at arm's length price. The Auditor did not adequately perform appropriate audit procedures to satisfy itself regarding compliance with Section 177 and 188 of the Companies Act, 2013, so as to report appropriately whether the related party transactions were at arm's length price.
23. It was observed that in one of the Engagements, the holding company was providing Inter Company Deposits (ICDs) to its wholly owned subsidiaries, which were regularly being impaired as per the cash flow analysis tested by the Engagement Team (ET). However, we observed that the inputs considered in the cash flow analysis were not adequately challenged and documented. The Auditor relied on the work of the auditor's expert without comprehensively evaluating the competence, capabilities, objectivity and adequacy of the work of the auditor's expert as per the requirements of Para 9 and 10 of SA 620.

C. Impairment of Non-financial Assets

24. No observation.

PART D

Chronology of Events

S. No.	Date	Event/Correspondence
1.	22.12.2023	Publication of last Inspection Report on the website of NFRA as per Rule 8 of NFRA Rules 2018
2.	27.03.2024	Intimation of follow-up/thematic Inspection from NFRA to the Audit Firm
3.	06.04.2024	Audit Firm submitted three engagement audit files at NFRA office
4.	02.05.2024 and 03.05.2024	Briefing Meeting with DHS held at NFRA office
5.	02.05.2024 to 14.06.2024	Off-Site Inspection
6.	14.06.2024	Communication of observations in engagement files to Engagement Teams
7.	01.07.2024	Draft response received from the Audit Firm
8.	31.07.2024 and 02.08.2024	In person meeting with Audit Firm in NFRA office to discuss draft response of the Audit Firm
9.	14.08.2024	Updated response received from the Audit Firm post discussion
10.	22.08.2024	Communication to the Audit Firm to schedule onsite inspection
11.	24.09.2024 to 26.09.2024	Onsite inspection
12.	27.09.2024	Submission of written response for queries pertaining to onsite inspection
13.	11.10.2024	Communication to the Audit Firm to submit Additional information
14.	7.11.2024, 13.11.2024, 18.11.2024 and 26.11.2024	Additional information submitted by the Audit Firm
15.	31.12.2024	Draft Inspection Report sent by NFRA to the Audit Firm

16.	28.1.2025	Submission of reply by DHS to Draft Inspection Report
17.	27.3.2025	Communication of Final Inspection Report to DHS
18.	28.3.2025	Comments on the Final Inspection Report by DHS
19.	28.3.2025	Publication of Inspection Report on the website of NFRA as per Rule 8 of NFRA Rules 2018

Appendix A: The Firm's response to this inspection report (to be included in the Final Report)

March 28, 2025

Mr. Amit Kumar Jain,
Chief General Manager,
National Financial Reporting Authority,
7th-8th Floor, Hindustan Times Building,
Kasturba Gandhi Marg,
New Delhi – 110 001

Subject: Response to Inspection Report 2024

Dear Sir,

We respectfully submit our response to the Inspection Report 2024 ("the Report") of Deloitte Haskins & Sells LLP ("the Firm") which includes observations on the National Financial Reporting Authority's ("NFRA") review of the remedial action taken by the Firm in response to the previous inspection observations and a thematic review of select audit engagements performed by the Firm during the Financial Years 2022 and 2023.

We believe that NFRA's inspection process serves an important role in the achievement of our shared objectives of enhancing audit quality, and serving investors and public interest. We are committed to continuous enhancement in audit quality and will be unwavering in our efforts towards this objective. This commitment is reflected by the fact that all the observations of NFRA in their Inspection Report 2022 have been addressed by the Firm.

Executing high-quality audits is our number one priority. In order to drive continuous enhancements in quality, we have been digitizing the audit, transforming the way we work, and fostering the development of our people, to fulfill our role to perform high-quality audits. Our quality is underpinned by a strong system of quality control. We are confident that our ongoing transformation, inclusive of the investments we are making in our audit processes, our people, and our technology, are resulting in significant, sustainable enhancements to our audit quality.

We have evaluated the matters identified in the Report and in Appendix A, have set out certain matters relating to the facts included in the Report for your consideration to incorporate any amendments in the final report.

Please contact me should you need any further information or clarification.

Yours sincerely,

Chandrika Sridhar
Partner



Policy related to Non-audit Services ("NAS")

1. In respect of Paragraph 15 in Part B of the Report, we submit that with effect from 1 April 2020, the Non-Audit Services ("NAS") policy for statutory audit clients, which are Public Interest Entities ("PIE"), was voluntarily adopted by the Firm, in the absence of any authoritative guidance, to address perceived conflicts resulting from interpretation of "management services" set out in section 144 (h) of the Companies Act, 2013. Accordingly, the NAS policy is applied as an extension of section 144 of the Companies Act, 2013 and therefore is comprehensive and in compliance of the requirements of that section. Additionally, we submit that while the current voluntary NAS policy is comprehensive in nature, this policy is being revised to align the PIE definition in the NAS policy with that of the entities covered by the NFRA Rules 2018.

Review of Individual Audit Engagement Files Focusing on Selected Areas of Audit - Related Party Transactions ("RPTs")

2. In Paragraph 22 in Part C, the Report refers to the Board's Report/ Form AOC 2/ Notes to Financial Statements containing an assertion made by the Companies' that all the related party transactions were at arm's length. We would like to draw your attention that the Board Report or Form AOC 2 are not in the scope of the audit and therefore have not been audited by us. None of the companies made any assertion of arm's length basis in the notes to their financial statements. As required by Sections 177 and 188 of the Companies Act, 2013, the engagement teams verified the approvals by the Audit Committees/ Boards of Directors, as applicable. These companies did not enter into any related party transactions which were not in ordinary course of business. In response to your comment, we will enhance the extent of documentation on pricing of related party transactions.
3. In respect of the observation in Paragraph 23 in Part C of the Report, we respectfully assert that adequate and sufficient audit procedures have been performed in accordance with Paragraph 13 of SA 540, *Auditing Accounting Estimates* on the inputs considered in the cash flow projections. The engagement team engaged our Internal Fair Value Specialists ("IFVS"). The professional qualifications, experience including in the same entity, relevant training, and independence confirmations to demonstrate competence, capability and objectivity of these specialists were documented.

