

## Deloitte resigns from Indian non-bank lender

Auditor steps down as Big Four come under pressure after shadow banking crisis unfolds in India

Stephanie Findlay in New Delhi YESTERDAY

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Deloitte has resigned as auditor of an embattled non-bank lender in India, marking the latest in a series of resignations that come as New Delhi is putting the Big Four auditor firms under scrutiny.

In a statement [posted](#) to the Bombay Stock Exchange on Tuesday, Dewan Housing Finance Corporation Limited said Deloitte had stepped down “with immediate effect” after raising [concerns](#) about intercorporate deposits and lack of transparency.

Deloitte confirmed that it had resigned the DHFL contract but would not comment further.

The resignation comes as the Big Four firms are under pressure in India following a [meltdown](#) in the shadow banking sector that has raised questions about audit quality.

Deloitte and KPMG affiliate BSR are fighting criminal charges and a potential five-year ban following the near-collapse of Infrastructure Leasing & Financial Services, a major infrastructure and finance group whose default last year triggered a credit crisis.

In court documents seen by the Financial Times, Indian prosecutors allege that Deloitte and KPMG were complicit and “connived” with the IL&FS management to perpetrate financial fraud after giving the company a clean bill of health before it defaulted on part of its \$13bn debt.

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Saurabh Mukherjee, Marcellus Investment Managers

The auditors have denied the allegations. Both have stated they are confident that they have acted in accordance with their duties as an auditor and the relevant legal framework and intend to robustly defend their position.

Against this backdrop, auditors have been resigning from Indian companies. In June, PwC resigned from Reliance Capital, another non-bank lender, citing “observations or transactions” that might be significant or material to the companies’ financial results. Reliance Capital said in a [letter](#) that PwC’s “observations are completely baseless and

unjustified”.

In response to the flurry of resignations, India's market regulator last month [proposed](#) a tightening of the rules governing auditor resignations, saying that surrendering a contract before an audit of annual results had completed "seriously hampers investor confidence and leaves the investors with lack of reliable information for taking their financial decisions."

Amit Tandon, an analyst at Mumbai-based Institutional Investor Advisory Services, said: "The audit firms are scared because of the shakedown taking place, just like the rating agencies are. They are scared that they have taken the wrong call and may be hauled out by regulatory bodies. Clearly if anything has a hint of scandal associated with it, they will be cautious."

SR Batliboi, a local affiliate of EY, has been barred from conducting commercial bank audits for a year in India, while PwC was banned from auditing listed companies for two years for failing to spot \$1.7bn fraud at the now defunct Satyam Computer Services.

The turbulence in India's shadow banking sector over the past year combined with stiffer regulatory oversight of auditors in the country has created a "perfect storm" for the Big Four, said Saurabh Mukherjea, founder and chief executive of Marcellus Investment Managers.

"As skeletons tumble out of the cupboard, it's becoming apparent that auditors were looking the other way as these accounts were being evergreened," alleged Mr Mukherjea. "India is going to go through an extended period of cleansing for our auditors to tighten up and become more diligent."