



राष्ट्रीय वित्तीय रिपोर्टिंग प्राधिकरण
National Financial Reporting Authority

INSPECTION REPORT
2024

Audit Firms:
Deloitte Haskins & Sells LLP
Deloitte Haskins & Sells
Deloitte Haskins & Sells
(Deloitte Haskins & Sells & Affiliates)

Firm Registration No:
(FRN 117366W/W100018)
(FRN 008072S)
(FRN 015125N)
Inspection Report No.132.2-2024-05
27.03.2026

National Financial Reporting Authority,
7th Floor, Hindustan Times House,
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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 profession associated with ensuring compliance with such standards, and to suggest measures required for improvement in quality of the service. Under this mandate, NFRA conducted audit quality inspections of the Chartered Accountant Firms M/s Deloitte Haskins & Sells LLP (FRN 117366W/W100018) (DHSL hereinafter), M/s Deloitte Haskins & Sells (FRN 008072S) (DHS hereinafter) and M/s Deloitte Haskins & Sells (FRN 015125N) (DHS hereinafter) during the year 2025-26. The scope of this inspection included a review of the remedial actions taken by the firms for the deficiencies reported in the previous report, a focus on Consultation, Monitoring and Human Resources in respect of SQC-1 and a review of five (5) selected audit engagements of financial statements for the year ending 31.03.2024, focussing on two significant audit areas, viz., Revenue Recognition and Loans & Advances. The third focus area was engagement specific.

The inspection comprised of virtual discussions, onsite visits and also in person interactions. Virtual discussions with the engagement teams of select audit engagements was held to facilitate a walkthrough of the audit files. Onsite visits, involving review of quality control policies, procedures and examination of related documents were held from 05.01.2026 to 09.01.2026. During the onsite visits, the inspection team held interactions with the leadership of the firms along with in person interaction with some engagement teams. These were followed by in person interactions with the remaining engagement teams and other personnel of the firms. After examination of the audit files and interactions, the formal observations were conveyed to the audit firms. Upon receipt of response to such observations, a draft inspection report was issued to the firms and on receipt of the firms' response to the draft inspection report, a final inspection report was issued to the firms, for which a written response was received. The observations are summarised as follows:

Firm Wide Audit Quality Control System-Compliance with Previous Year's Inspection Observation

- i. Audit firms' Non-Audit Service (NAS) Policy applies only to Deloitte India entities, lacking safeguards against prohibited NAS by non-India network firms to Indian clients' group entities.

Individual Audit Engagements

- ii. Company A granted loans to its foreign Wholly Owned Subsidiary below its Weighted Average Cost of Capital. However, sufficient evidence to arrive at arm's length was lacking.
- iii. Company A granted Rs. 890 crore loans to its foreign Wholly Owned Subsidiary in FY 2023-24, triggering mandatory Audit Committee review under Regulation 18 of SEBI LODR. However, the same was not evidenced in the audit file for the loans provided during Quarter 2 and Quarter 3. Further, the end use verification for the loan of Rs. 204

crore provided to such foreign Wholly Owned Subsidiary was not supported by sufficient appropriate audit evidence.

- iv. Company A's exposure amounting to Rs. 2,733 crore in its loss making foreign Wholly Owned Subsidiary lacked sufficient evidence for testing impairment/ECL, wherein the audit firm relied on non-binding MoU, draft agreement, and indicative EXIM financing without proper evaluation.
- v. Company B granted credit extensions/waivers to a significant related party debtor, classifying receivables as "not due", without documented Executive Committee authorization and subsequent Audit Committee review.
- vi. In the case of Company B, it is observed that the Management Representation Letter for Standalone Financial Statements for FY 2023-24, signed by the Chief Financial Officer of Company B included, as Appendix 2, statements corresponding to matters covered under the Companies (Auditor's Report) Order (CARO).

Inspection Overview

1. Section 132 of the Act, inter alia, mandates NFRA, to monitor compliance with Auditing and Accounting Standards, to oversee the quality of service of the profession 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 August 2025. The overall objective of audit quality inspections is to evaluate the compliance of the audit firms/auditors 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 inspection involve a review of the remedial action taken by the firms in response to the previous inspection observations, and a test check of SQC-1 elements and select audit engagements for the financial year 2023-24 performed by the audit firms.
3. Inspections are intended to identify areas and opportunities for improvement in the audit firms' 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 engagements, 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 firms, the number of audit engagements completed in the year under review: complexity and diversity of preparer's financial statements (henceforth, Companies) audited by the firms and other risk indicators. M/s Deloitte Haskins & Sells LLP (DHSL), M/s Deloitte Haskins & Sells (DHS) and M/s Deloitte Haskins & Sells (DHS) were the audit firms selected using the above parameters.
5. The selection of individual audit engagements of the audit firms was based on financial and non-financial risk indicators identified by NFRA. Accordingly, the Audit Files in respect of five (5) audit engagements relating to the statutory audit of financial statements for the year ending 31.03.2024 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 firms's adherence to SQC-1¹, Code of Ethics and the applicable laws and rules.
 - b) Review of areas of quality control viz. Consultation, Monitoring and Human Resources.
 - c) Review of individual Audit Engagement Files- A sample of five (5) individual audit engagement files pertaining to the annual statutory audit of financial statements for the year ending 31.03.2024 were selected. Three significant audit areas were identified, out of which two areas viz., Revenue and Loans & Advances were common across all the five (5) engagements, and a third area was engagement specific, based on the inherent risk of material misstatement.

The selected sample of five (5) individual audit engagements are not representative of the firm's total population of the audit engagements completed by the firms for the year under review.

Inspection Methodology

7. Virtual and in person meetings took place with the respective Audit Engagement Teams of the five (5) engagements which included a walkthrough of the audit files in Omnia, EMS and Levvia, interviews and discussions. The inspection team visited the office of the firms from 05.01.2026 to 09.01.2026 for matters pertaining to SQC-1 and review of compliance for past observations made in the NFRA Inspection Reports. During the onsite visits, the inspecting team held interactions with the leadership of the firms along with in person interaction with some engagement teams.
8. The areas of weaknesses or deficiencies observed in the inspection reports should be viewed as areas of potential improvement and not as a negative assessment of the work of the audit firms unless specifically indicated.

¹ SQC 1, "Quality Control for Firms that Perform Audit and Reviews of Historical Financial Information, and other Assurance and Related Services Engagements"

Audit Firms Profile

9. M/s DHSL (FRN 117366W/W100018), M/s DHS (FRN 008072S) and M/s DHS (FRN 015125N) are Limited Liability Partnership / Partnership firms with offices at 15 locations in India. They are members of Deloitte Haskins & Sells & Affiliates (DH&S&A Network), a domestic network of fifteen (15) CA firms, which is registered with the Institute of Chartered Accountants of India (ICAI). DH&S&A Network is a member of the international network of Deloitte Touche Tohmatsu Limited (DTTL) Overseas Network. As on 31.03.2024, DH&S&A Network had 81 partners, 2667 staff members in the audit and assurance division.
10. DH&S&A Network audited 370 entities covered by the NFRA Rules, out of which 366 entities having financial year end as 31.03.2024.

Acknowledgment

11. NFRA acknowledges the cooperation of the audit firms during all stages of the inspection.

PART B

Review of Firm Wide Audit Quality Control System-Compliance with Previous Years Inspection Observations

Independence Policy and Practices

12. The audit firms introduced a Non-Audit Services (NAS) Policy effective 01.04.2020, applicable during FY 2023-24. The NAS policy applies only to Deloitte India entities and does not provide safeguards to prevent indirect provision of prohibited NAS by non-India network firms to holding or group entities of Indian audit clients, as mandated by Section 144 of the Companies Act, 2013. The firms' reliance on compliance by non-India entities with the IESBA Code of Ethics does not, by itself, establish compliance with the requirements of Section 144 of the Act.
13. The NAS policy framework during FY 2023–24 was applicable only to Deloitte India entities and did not demonstrate safeguards or monitoring mechanisms addressing the risk of prohibited services provided by non-India network entities to group entities of Indian audit clients. NFRA inspection report 2023 also highlighted this observation and had called upon the firm to bring its NAS policy in compliance with Section 144 of the Companies Act, 2013. However, though the PIE definition as per Rule 3 of NFRA Rules 2018 has been updated (w.e.f. 01.01.2026), the firms have not yet aligned their NAS policy with the requirements of Section 144 of the Companies Act, 2013. The audit firms, are therefore, again advised to align its NAS policy with the statutory framework in India.

PART C

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

14. This section discusses deficiencies observed in selected audit engagements. The inspection covered five (5) individual audit engagements and focused on three audit areas viz. Revenue and Loans & Advances were common across all the five (5) engagements, and a third area depending on the complexity was chosen. Audit procedures performed by the audit firms in these five engagement areas were reviewed. The observations are discussed below.

(a) Loans & Advances

i. Evaluation of Arm's Length

15. Company A granted working capital loans to its Wholly Owned Foreign Subsidiary (WOS) to meet the working capital requirements. It is observed that the audit work paper for arriving at arm's length contained only the Weighted Average Cost of Capital (WACC) of Company A, however, the loan was provided at a rate lower than the WACC. In its justification of the rate lower than the WACC, the audit firm stated that the basis for concluding the arm's length was the average weighted cost of the borrower (WOS), but the same is not evidenced in the audit file as per the requirements of para 24 of SA 550². The audit firm is advised to improve the audit documentation for the arm's length assessment.

ii. Non-compliance with Audit Committee review requirements and end use verification

16. It is observed that Company A granted loans amounting to Rs. 890 crore to its Wholly Owned Foreign Subsidiary (WOS) during FY 2023-24 which was disbursed in various tranches. Regulation 18 read with Part C of Schedule II of the SEBI LODR Regulations, 2015, requires the Audit Committee to review the utilization of loans, advances or investments by the holding company in a subsidiary that exceed Rs. 100 crore or 10% of the subsidiary's asset size, whichever is lower.

17. The audit firm in its reply stated that the Audit Committee and Board of Directors reviewed the various loans including the aforesaid loan of Rs. 890 crore every quarter to determine compliance with the resolution passed by the shareholders. However, it is observed that the audit file does not evidence the Board review and the mandatory Audit Committee review for loans granted during Quarter 2 amounting to Rs. 372 crore and Quarter 3 amounting to Rs. 318 crore.

18. Further, in reference to the end use verification, as required by Section 185 of the Companies Act, 2013, the audit firm was required to verify the end use of the loan granted to the WOS.

² SA 550, "Related Parties".

On perusal of the audit file, it is observed that out of loan of Rs. 890 crore granted to WOS, end use verification for Rs. 204 crore was not supported by sufficient appropriate audit evidence. Accordingly, the audit firm is advised to improve the audit documentation as per the requirements of SA 230³.

(b) Other Areas

i. Evaluation of Expected Credit Loss (ECL) and Impairment

19. It is observed that as on 31.03.2024, Company A's total exposure to its wholly owned foreign subsidiary (WOS) was Rs. 2,733.10 crore, comprising investments of Rs. 369.28 crore, loans of Rs.1,968.10 crore and other receivables. The WOS had operating losses and negative net worth which required Company A to assess the recoverable amount for its exposure in such WOS including the ECL.
20. The audit firm in its response submitted support of the future cash flow forecast, a Memorandum of Understanding (MoU) entered by Company A with a foreign government and the same was evaluated and documented in the audit file. Also, the audit firm submitted a draft agreement in support of such MoU. However, it is noted that MoU is not a binding contract and does not guarantee future cash flow. Further, no evaluation of such MoU is seen in the audit file. Also, the said draft agreement is not documented in the audit file.
21. Further, it is observed from the audit file that Company A also placed reliance on the indicative terms of financing from a foreign bank to conclude the existence of the project of such WOS and the future cash flows. It is noted that such reliance cannot be an appropriate basis for existence and evaluation of future cash flows.
22. Accordingly, the audit file does not demonstrate sufficient and appropriate audit evidence and procedures in respect of impairment and ECL assessment of significant investments, loans, and receivables from the WOS. This is not in compliance with the requirements of Ind AS 36⁴ and SA 200⁵.

ii. Extension of Credit Period to Related Party

23. In the case of Company B, it is observed that a related party which was a significant debtor of Company B was given repeated extensions/waiver in credit period as a result of which, significant outstanding receivables were classified as "not due". The Audit Committee had authorized the Executive Committee of the Board to grant credit period waivers subject to recording reasons and reporting the same to the Audit Committee. However, no such authorization and subsequent reporting to Audit Committee is seen documented in the audit file.

³ SA 230, "Audit Documentation".

⁴ Ind AS 36, "Impairment of Assets".

⁵ SA 200, "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing".

24. The audit firm submitted that extension of credit is a normal commercial practice in the distribution business, particularly in cases of new product launches and market expansion. The audit firm stated that the credit extensions were granted by an Executive Director, who was also a member of the Executive Committee and the Board and that similar credit extensions were granted to other unrelated super distributors and stockists, and that the terms extended to this related party were not preferential.
25. It is noted that the approval by one individual Executive Director of the Executive Committee of the Board cannot be equated with formal approval of the Executive Committee of the Board and also failed to subsequently report the reasons for such waiver to the Audit Committee.

iii. Inclusion of Draft CARO in the MRL

26. In the case of Company B, it is observed that the Management Representation Letter (MRL) for Standalone Financial Statements for FY 2023-24, signed by the Chief Financial Officer (CFO) of Company B included, as Appendix 2, statements corresponding to matters covered under the Companies (Auditor's Report) Order (CARO), for areas of inventories, investments and loans. The audit firm submitted that certain language used by the management in the MRL may have created an impression that a draft CARO report was included, though that was not the case and that specific audit procedures were performed for the relevant CARO clauses, supported by documented working papers.
27. It is noted that management representation, as envisaged under SA 580, is intended to provide written confirmations from management regarding matters within management's responsibility and to support other audit evidence. CARO reporting, on the other hand, represents the auditor's independent findings and conclusions arising from audit procedures performed in accordance with the Standards on Auditing and statutory requirements.
28. The audit firm is advised to ensure separation between the MRL and the auditor's conclusions to maintain auditor independence and objectivity.

PART D

Chronology of Events

| Sr. No. | Date | Event/Correspondence |
|---------|------------------------------|---|
| 1. | 28.03.2025 | Intimation of Inspection of audit firms. |
| 2. | 15.04.2025 and 03.09.2025 | Information submitted in paragraph 4(d) of the letter dated 28.03.2025. |
| 3. | 29.08.2025 | Intimation of the timeline for commencement of inspection. |
| 4. | 21.11.2025 and 25.11.2025 | Intimation of the selection of engagements along with related focus areas. |
| 5. | 11.12.2025 | Submission of engagement files and quality control documents by the audit firms. |
| 6. | 18.12.2025 to 22.12.2025 | Virtual walkthrough of different engagement files. |
| 7. | 05.01.2026 to 09.01.2026 | On site inspection relating to quality control aspects of the audit firms and in person meeting for some engagements. |
| 8. | 12.01.2026 to 15.01.2026 | In person meeting with engagement teams for some engagements. |
| 9. | 13.01.2026 to 29.01.2026 | Communication of quality control and engagement specific observations. |
| 10. | 16.01.2026 to 05.02.2026 | Responses received on quality control and engagement specific observations. |
| 11. | 17.02.2026 | Draft Inspection Report sent by NFRA to the audit firms. |
| 12. | 24.02.2026 | Discussion on Draft Inspection Report at NFRA office. |
| 12. | 02.03.2026 | Submission of reply by the audit firms to the Draft Inspection Report. |
| 13. | 10.03.2026 | Communication of Final Inspection Report to the audit firms. |
| 14. | 16.03.2026 | Comments on the Final Inspection Report by the audit firms. |
| 15. | 27.03.2026 | Publication of Inspection Report on the website of NFRA as per Rule 8 of NFRA Rules 2018. |

Appendix A: Audit Firm's response to this inspection report

Pursuant to Section 132(2) of the Companies Act, 2013 and Rule 8 of NFRA Rules, 2018, the Authority is publishing its findings relating to non-compliance with SAs and the sufficiency of the Audit Firm's quality control system. As part of this process, the Audit Firms provided a written response to the Inspection Report, which is attached hereto. NFRA, based on the request of the Audit Firms has excluded the information from this report which was considered proprietary.

16 March 2026

Mr. Shyam Tonk
Executive Director
National Financial Reporting Authority,
7th-8th Floor, Hindustan Times House, Kasturba Gandhi Marg,
New Delhi -110 001

Dear Sir,

Subject: Response to Inspection Report 2024

We respectfully submit our response to the Inspection Report 2024 ("the Report") of Deloitte Haskins & Sells LLP (Firm Registration Number ("FRN") 117366W/W100018), Deloitte Haskins & Sells (FRN 008072S) and Deloitte Haskins & Sells (FRN 015125N) (collectively referred as "the Firm") which includes review of remedial actions taken by the Firm in response to the previous inspection observations, test check of SQC-1 elements and review of selected audit engagements performed by the Firm for the year ended 31 March 2024.

We believe that National Financial Reporting Authority's (NFRA) inspection process serves as an important role in the achievement of our shared objectives of enhancing audit quality and serving investors and public interest. We are committed to excellence in audit quality and will be unwavering in our efforts towards this objective. This commitment is reflected in the continuous enhancements made by the Firm and the fact that observations made by NFRA in their previous Inspection Reports, have been considered, evaluated and appropriately been dealt by the Firm.

In response to the observations made by the NFRA inspection team in respect of the audit of Company A, as included under Part C of the Report, the Firm acknowledges that the audit documentation prepared in accordance with SA 230: *Audit Documentation*, could have been enhanced. In particular, the audit procedures designed and performed for the purposes of obtaining sufficient appropriate audit evidence in accordance with SA 500: *Audit Evidence*, could have been more robust and documented in a precise manner considering the guidance in SA 230: *Audit Documentation*, such that an experienced auditor, having no previous connection with the audit engagements, could better understand the nature, timing, extent, and results of the audit procedures performed, the evidence obtained, and the conclusions reached.

In response to the observation relating to management representation letter made by the NFRA inspection team in respect of the audit of Company B, the engagement team has maintained its objectivity and independence because adequate audit procedures were performed and sufficient evidence was independently obtained, as documented in the audit working papers, to support the statements made in CARO. As described in SA 580: *Written Representations*, written representations do not provide sufficient appropriate audit evidence on their own about any of the matters with which they deal. Additionally, the written representation provided by management was not the primary evidence to reach the conclusions



Deloitte Haskins & Sells LLP

made in the CARO report and it did not affect the nature or extent of the other audit evidence obtained by the engagement team. However, the Firm acknowledges the NFRA inspection team's observation and will prospectively initiate measures to enhance documentation relating to communication with management.

As it relates to the observation made by the NFRA inspection team in respect of the System of Quality Control relating to the Firm's Non-Audit Services (NAS) policy, we reiterate that this is a **voluntary** policy which has been made applicable to those Public Interest Entities (PIEs) where the Firm believes there were perceived threats to independence and other conflicts of interest. The Firm including its network firms in India registered with the ICAI that are eligible to be appointed as auditors in accordance with Section 139 of the Companies Act, 2013 **voluntarily** does not provide directly or indirectly non-audit services to the entities within the scope of Section 144 of the Companies Act, 2013 which are otherwise not prohibited by the Companies Act, 2013 or the ICAI Code of Ethics.

The Firm is compliant with the requirements set out in Section 144 of the Companies Act, 2013. We request NFRA to provide mandatory guidance on "management services" contained in Section 144 for consistent application to all audit engagements of NFRA regulated PIEs.

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.

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

Yours sincerely,



Chandrika Sridhar
Partner

