Issues with Indian auditing

What is the issue?

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Government is very strong in its stand, creating a framework to audit the auditors.

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What is the role of charted accountants?

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- Behind every successful tax planning scheme, there is an accountant.
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- India is one of the few countries that requires tax audit by external auditors.
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- CAs conducting tax audits have direct responsibility for detecting and reporting tax evasion.
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What are the practical issues with CA?

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- Though the role of CA’s has been around since 1984, tax audit seems to have failed to check tax evasion and avoidance.
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- Accountants advise their clients on compliance with tax laws, in practice, things work very differently.
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- Instead of highlighting the need to pay taxes on both legal and moral grounds, CAs give dubious advice on tax evasion using shell companies as

instruments.
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- They devise aggressive methods of tax planning (often a euphemism for tax avoidance).
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- Now most of the accountants are assisting tax evasion, money laundering and fraud in the society.
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- Despite its poor record in protecting investors, creditors and society, the power of the accounting industry has grown by leaps and bounds.
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How poor auditing promotes affects different sectors?

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- **Banking -** The non-performing assets (NPA) situation illustrates all that is wrong with auditing.
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- Banks are subjected to many types of audit such as the annual financial statement audit, concurrent branch audit, annual branch audit, regular stock audit, and so on. Yet, NPAs are at alarming levels.
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- There are large-scale frauds in the financial statements of some borrowers.
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- But nobody has thought of holding the auditors accountable for their failure.
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- There is hardly any published bank audit report that has highlighted substantial under-provision for NPAs or weak credit appraisal systems.
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- **Industries -** Auditors are required to report on internal financial controls of Indian industries.
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- They seldom mention any internal control weaknesses.
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- Going by them, Indian companies would seem to have the best internal controls in the world.
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- Despite many companies ceasing to function or being unable to carry on without continued external financial support, going concern qualifications

are non-existent.
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- These are mere symptoms of serious audit quality problems.
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How this issues going to be addressed?

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- **NFRA -** Government has proposed the National Financial Reporting Authority (NFRA).
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- The body responsible under the Companies Act for the establishment and enforcement of accounting and auditing standards and oversight of the work of auditors.
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- The quality of the NFRA will depend on the quality of its members and staff.
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- It is important to get persons of high competence and impeccable integrity to help the NFRA achieve its mission.
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- **Curtailing ICAI -** The ICAI should be demutualised, a demutualised ICAI should be run by a professional board with members drawn from individual and institutional investors, banks, insurers, and others with an interest in the efficient functioning of capital markets.
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- The ICAI should be responsible for CAs' education, training, examination and continuing education.
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- **Stronger regulators -** Regulatory bodies such as SEBI and the RBI should strengthen their capacity for monitoring and enforcing compliance with regulations.
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- They should set up specialised divisions to examine accounting and auditing matters.
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- The Securities and Exchange Commission in the US employs high-quality professionals to achieve its objectives, such models can be followed.
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- **Easier access to Justice -** Shareholder litigation should be made easy, accessible and economical.

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- There is an urgent need to strengthen mechanisms such as arbitration and expert witnessing in order to improve the speed and fairness of redressing shareholders’ complaints against company auditors.
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- Class action rules should be disseminated widely.
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Source: Business Line

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