Replacing the Accounting Regulator

What is the issue?

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- Multiple corporate scandals, seems to be reflecting the failure of the auditors, which calls for reforming the regulatory structure for the auditing profession.
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- Notably, there are already plans for annulling the self regulatory role that is currently played by the “Institute of Charted Accountants in India” (ICAI).
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What is the envisioned replacement for ICAI?

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- Several corporate scandals have surfaced in the past, where Charted Accountants had failed in their audit duties.
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- This was again reiterated in the “Punjab National Bank fraud”, and calls for better regulating the auditing profession has grown stronger.
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- Notably, replacing the self-regulatory role of “Institute of Charted Accountants of India” (ICAI) with an external regulator is already under consideration.
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- **NFRA -** The setting up of an external regulator namely “National Financial Reporting Authority” (NFRA) has been envisaged in the Companies Act 2013.
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- While NFRA hasn’t been notified yet, it is being touted as a powerful body that will lay down accounting and auditing standards to be followed in India.
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- It is also envisioned to monitor and enforce adoption of the stated auditing standards, and oversee the quality of the auditing profession.
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- Importantly, it will also have the powers to investigate the misconduct by

chartered accountants, either on its own or based on a reference made to it.
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- Consequently, NFRA is intended to become the regulatory body that will comprehensively replace ICAI's self regulatory role.
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- Resultantly, ICAI will become merely an examining and certifying body.
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What has been the record of ICAI?

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- **Overall Record -** ICAI has for long been serving the individual self interests of its top brass rather than the collective image of the auditing profession.
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- It has long been ignoring the blows dealt to its reputation by fellow member's lapses and even downplayed them in the face of public anger.
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- Notably, of the 1,972 disciplinary cases considered by the ICAI till now, only the auditors of Satyam have been permanently disqualified from membership.
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- In a majority of cases where members have been found guilty, they've been merely reprimanded.
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- **Specific Cases -** Stock market regulator SEBI has alleged that ICAI hasn't cared to investigate the role of auditors in suspected stock price manipulation.
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- Notably, SEBI had referred multiple cases to ICAI as early as 2015, for which action hasn't been taken.
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- Also, Serious Fraud Investigation Office (SFIO) had referred 34 chartered accountants for suspected involvement in money laundering.
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- In this reference too, there has been minimal action, with investigations commencing only against 5 auditors.
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- The PNB fraud was indeed the pinnacle of failure as it got through multiple parallel audits like - the branch audit and statutory audit.
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- **Structural Flaw -** Self Regulation is a concept where the regulated elect the regulator that governs the entire setup.

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- This model works well only if there is a sense a collective accountability in sector, which clearly seems missing here.
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- Hence, the current state of affairs was completely crafted by ICAI’s own making, which hence justifies calls for an external regulator.
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Source: Business Line

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