

# Can Auditors become Corporate Governance Professionals?



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The Accounting profession experienced tremendous growth and success in the 20th century. The expanded role of accountants can be traced to a number of specific factors such as the emergence of large organizations and the attendant separation of ownership and control, the passage of various laws such as Companies Act, Income Tax Act etc., securities legislation and the increasing complexity of business transactions.

In the backdrop of globalization and changing business scenario, the role and responsibility of accounting professionals has assumed added significance in providing transparency as they are regarded as trustees of investors and the general public and thereby contribute to good corporate governance. Transparency in the corporate sector is imperative to imbue confidence amongst investors in our markets. The quality of information and the integrity of the market place act as strong modes for brand differentiation. While the quality of information has immediate and far-reaching implications for a particular enterprise, it eventually permeates to the market and the economy as a whole.

The International Federation of Accountants (IFAC) talks about Governance Framework. The Framework is composed of two dimensions: the performance dimension and the conformance dimension. The professional accountants are engaged in both performance and conformance activities. For conformance, they are often responsible for compliance of regulatory and statutory requirements and developing control processes. For performance dimension they provide, analyze and interpret information to management for strategy formulation, decision making and planning and control. Thus, the activities of professional accountants are strongly aligned with the principles of governance viz., strategic oversight, risk management, optimal and responsive usage of resources, and achievement of strategic and operational goals.

Corporate governance and Chartered Accountants are inseparable and one cannot expect to have the good practices without involvement of finance professionals. They are like two sides of same coin. Companies Act, 2013 and Revision of Clause 49 contains provisions

whereby Corporate Governance importance is reiterated. The Chartered Accountants are committed to ensuring good governance, reforms, ease of doing business, financial discipline and economic growth.

In the last 65 years, the Indian accountancy profession has undergone a paradigm shift, and the phenomenon continues to this day. Today's CA enjoys an exalted position in the professional order of the country. Today, the Chartered Accountants are regarded as an *'institution of public trust' besides being 'conscience keepers of economy'*. It was in this backdrop that the visionary former President of India Dr. A.P.J. Abdul Kalam acknowledged as *'Partners in National Development'*.

From traditional bean counters, the Chartered Accountants have now metamorphosed into a multidimensional professional, offering complete business solutions as *'information and decision specialists'*. The role of CA has shifted from backroom to boardroom. He is no longer a statistician but a strategist.

The new Companies Act intends to improve corporate governance and to further strengthen regulations for the companies, keeping in view the changing economic environment as well as the growth of our economy. The Act which was much awaited and deliberated topic for a long period of time has introduced some of the new concepts in Corporate Governance like definition of Independent Directors alongwith the Code for Independent Directors and the Concept of Corporate Social Responsibility, Women Directors, Vigil mechanism.

Role of Chartered Accountants as Corporate Governance professionals at the backdrop of the new Companies Act, 2013 is enhanced as they carry the great legacy of professional integrity, independence, excellence and service to the nation. The accountancy profession now is an integral part of India's success story.

Some of the important provisions in the Companies Act 2013 where the Chartered Accountants have a significant role in upholding best governance practices in a company are as follows:

## **Chartered Accountants as Internal Auditors**

As per Section 138 of the Companies Act, 2013, a chartered accountant would be conducting internal audit of the functions and activities of the company. In the governance framework internal audit function is as crucial as external audit function as it helps the Board and the management especially the Audit Committee of the Board to perform its responsibilities effectively. The Internal auditor reports on internal control problems and provides for improving risk management.

### **Appointment of Chartered Accountants as Auditors**

Section 139 to 148 of the Companies Act, 2013 deals with provisions related to Statutory Auditor. The Act now has now made the Auditing Standards mandatory which an auditor has to comply with.

### **Other services by Auditors**

This section seeks to provide that an auditor can do such other services as approved by the Board or audit committee. The section further provides for the services which the auditor cannot perform, directly or indirectly to the company or its holding company, subsidiary company or associate company.

### **Appointment as Registered Valuer**

This Act provides that where valuation is required to be made in respect of any property, stocks, shares, debentures, securities or goodwill or any other assets (herein referred to as the assets) or net worth of a company or its liabilities under the provision of this Act, it shall be valued by a person having such qualifications and experience and registered as a valuer. The draft Rules provided that a Chartered accountant may be appointed as Registered Valuer under section 247.

### **Chartered Accountants as Independent Directors**

The idea of having Independent Directors on the Board is to bring objectivity to Board decisions, protect common interests of the company and its stakeholders, observe high ethical standards, foster improvement in corporate governance standards. Independent directors have to play a crucial role in framing the CSR policy and its implementation in the Board and company with extended emphasis on global warming and climate change. The Chartered Accountants have a crucial role to play in corporate governance in general and as independent directors in particular.

### **Women Directors on the Board**

Women Chartered Accountants are well equipped and empowered to become Directors on the Boards of company

### **Chartered Accountant as Key Managerial Personnel**

The Act has for the first time defined Key Managerial Personnel and it includes Chief Financial Officer. As we all know Chief Financial Officers are mostly Chartered Accountants. The legislative requirements for statutory disclosures by professional accountants relating to the financial affairs of a corporate are spread across a large number of statutes and the purpose of such statements have to be viewed from the intention and requirement of such law and it is therefore a very important task to consolidate such statements/reports/opinion by accountants in one place.

### **As Provisional Liquidator**

The provisional liquidator or the Company Liquidator, as the case may be, shall be appointed from a panel maintained by the Central Government consisting of the names of chartered accountants, advocates, company secretaries, cost accountants or firms or bodies corporate having such chartered accountants, advocates, company

secretaries, cost accountants and such other professionals as may be notified by the Central Government or from a firm or a body corporate of persons having a combination of such professionals as may be prescribed and having at least ten years' experience in company matters.

### **As Professional Assistance to Company Liquidator**

As per Section 291 of the Companies Act, 2013, the Company Liquidator may, with the sanction of the Tribunal, appoint one or more chartered accountant on such terms and conditions, as may be necessary, to assist him in the performance of his duties and functions under this Act.

### **Right to Legal representation**

As per Section 432, a party to any proceeding or appeal before the Tribunal or the Appellate Tribunal, as the case may be, may either appear in person or authorize one or more chartered accountants or company secretaries or cost accountants or legal practitioners or any other person to present his case before the Tribunal or the Appellate Tribunal, as the case may be.

No doubt Indian accountancy profession has come a long way but still there are miles to go. There are still many challenges to be met, many frontiers to be conquered and histories to be made. Newer and newer challenges are emerging, particularly in the spheres of 'Companies Act 2013,' 'Direct Tax Code,' 'Goods and Services Tax,' 'XBRL,' 'IFRS-converged Ind AS,' 'Integrated Reporting,' 'e-Commerce', 'Environmental Accounting', 'International Taxation', 'Technology Consulting', 'ERP Implementation', 'Forensic Accounting', 'Fraud Detection' etc.

### **As stated by the then Vice President of India Dr. S. Radhakrishnan, while addressing the Chartered Accountants' Meet held on June 5, 1958 at Madras.**

*"The moment we won our freedom, we tried and we are trying to consolidate our country. After that, our greatest ambition is to establish socialistic pattern of society pour social and economic content into the pattern of democracy. That is why we are building these huge dams, hydro-electric projects, fertilizer factories in public sector and they are steadily on the increase. But all these will avail nothing unless we are able to induce confidence in the public that we are able to get adequate returns for the monies we are spending on these huge enterprises. And, therefore your profession (CA) has a very vital part to play. You must do your work selflessly, in a spirit of dedication, in an uncompromising way, not caring for powers, but you must do your work for the sake of the community as a whole."*

The aforesaid words of wisdom spoken about 55 years ago hold true even today. The Accountancy profession has always been responsive to the ever-changing environment and expectations of the society. It is in this perspective; the Chartered Accountants are expected to continue to play its true role and uphold best corporate governance practices.