

Should SEBI Regulate the Auditors? Is an Audit Renaissance in the offing?



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This is a revolutionary question! Should any set of professionals have a single or multiple regulators is the question we must first answer. Depending upon the answer each one has in their mind, they will answer this question too, as Auditors are already regulated by the ICAI. Multiple regulators must also deliver outcomes for society. In our view the

focus of all attention must shift to what all of us wish to see happen to our great country. A clean, dependable set of integrated reports about every entity in a country will deliver a lower cost of capital and a very powerful case for investment, both domestic and cross border. If this be the desirable outcome, what needs to be undertaken is a larger than life reorganisation of all risk and control systems. People, processes and policy inputs must all combine to deliver this positive outcome. We need a veritable Audit Renaissance.

What will the new face of Auditing look like? The custodianship of the Renaissance must lie with Chairpersons of every Board. The Board as a whole and the Managing director or CEO as the chief implementer must combine to set up every organisation for a fresh look at itself. The codification of accounting standards and auditing standards is a major project that the world has already spent an immense amount of time and effort to put in place. Perhaps the only aspect of our economic lives where global consensus has the best chance to emerge is on the ubiquitous applicability of these standards. These codes now need to be harnessed and taken to full implementation in letter and spirit by all those charged with Governance of an entity.

Let's look at the steps required to be taken:

- 1) Commission a digital framework which will embrace all standards of reporting, accounting, internal auditing and external auditing applicable to the Governed entity to be put in place. This framework must be plugged into the source of standards with a digital connect.
- 2) Select a small team of empowered executives led by the CEO and having all business units and functions represented to be the execution engine. A team of five to ten is the right size.
- 3) Take a stock of the 'As is' status of the entity.

- 4) Lay down immutable metrics which will drive performance analytics for business outcomes, capital efficiency, people productivity and system readiness to whether all external and internal shocks. We have found that in the best governed organisations a metric for each one of these and a cross check metric work best.
- 5) First design the core business processes to keep every chosen metric in a mode of continuous improvement. Then attack all the internal control systems to create a Fort Knox with exceptional use of Cyber Security and extremely high automation and Robotic processes where possible to keep the risks constantly monitored and contained. Next set the reporting frameworks by identifying all data sets that need to be collected, monitored and converted to useful reporting outcomes.
- 6) continually monitor whether the impulses set in motion are delivering results. A continuous improvement mind set is the most useful overall guide. Leadership must ensure that this is achieved.
- 7) continuously benchmark with the best in the world in every aspect that creates economic value in the entity.
- 8) have a periodic external audit of the entire process so that Best and next practices may be introduced without delay.
- 9) Invite regulatory oversight with open arms. Ultimately, if every inspection delivers a clean chit, the purpose of this entire exercise will be fulfilled.
- 10) Dedicate a specific item in every second Audit committee to this subject so that it gets the continuous attention it deserves.
- 11) Discuss the positive actions taken in the Annual report so that the investing public gets an insight into the extraordinary efforts being undertaken to deliver clean, reliable and externally validated information.

Ultimately, in an Internet intense world, personalisation of the entity, digital connects to every aspect of performance both external and internal, and a strong feedback mechanism are inevitable. The new values to be cultivated will have to be transparency, trust and a mindset of continuous improvement. To this brave new world should all of us involved must aspire. The rewards will be zooming market apps for the best and a severe limiting of the unsavoury. All regulators will be pleased with such outcome.

SO LETS SELF REGULATE BEFORE GETTING STRANGLLED BY UNNECESSARY. REGULATION