

## PNB scam fallout: The profession of chartered accountancy under siege

**It is time that the ICAI and senior professionals defend the profession and ensure that it does not become the scapegoat every time a financial scam occurs**

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Consider the following recent events which have put the profession of chartered accountancy under a considerable spotlight:

- The PM, at the Foundation Day meet of the Institute of Chartered Accountants of India (ICAI) reminds the fraternity of their duty to live up to the trust reposed on them and not help people evade taxes.
- The railway minister, a distinguished CA himself, says that if CAs practise honestly, the problem of corruption in the country could be eradicated.
- In a matter pending before the Securities Appellate Tribunal, Sebi bans one of the Big Four accounting firms from carrying out audit of listed companies for two years
- The Supreme Court (SC) directs further action on the High Powered Committee Report on multidisciplinary firms.

- The NiMo scam breaks and the role of the auditors is called into question.

The government notifies the National Financial Reporting Authority (NFRA) as the body now authorised to take action against the erring CAs.

There is indignation expressed by the professionals that an audit is not designed to unearth frauds. On the practice of taxation, there is indignation that the real culprits who indulge in corruption and tax evasion should be hauled up, not their CAs. On the other hand, questions are being raised about how can an audit not unearth material misstatement in accounts for several years. Again, on the front of taxes, questions are being asked as to whether CAs actually advise clients how to evade taxes and at a time when the country is taking steps to curb black money. One thing is clear—the profession needs to introspect hard if it has to maintain its dignity and continue to be respected.

Let me begin with a generic assessment. Through my 37 years in the profession, I have seen India produce world-class CAs who are admired globally for their acumen. The audit failures or sale of tax avoidance products we have seen in India are equally prevalent globally. We have seen a lot of rot setting in the moral and professional standards all around. We read about tax officials, bureaucrats and politicians being prosecuted for accepting bribes, businessmen indulging in money laundering, et al. We see the urge to make quick money and take shortcuts. It is, therefore, not surprising that CAs too would be a part of this fall in societal standards. This rot is also witnessed in many other professions including legal, medical, architectural and so on. While this does not justify what CAs are accused of, it is necessary to appreciate the environment around us and understand that CAs are not an island.

Let's look at the profession of audit where CAs are accused of failings. The Satyam non-discovery of missing bank balances or the PNB non-discovery of LoU (letter of understanding) are some instances. There have other instances of non-discovery of frauds in listed companies, in valuations, due diligence, etc. I am not commenting on any of the individual instances. What I do want to point out is that statutory audit has been reserved as an exclusive domain of the CA profession. The reliance placed on the financial statements by shareholders, lenders and several other stakeholders cannot be underestimated. I do believe that generally, Indian audit firms perform work to global standards.

There can be, to my mind, four key reasons why an auditor may not be able to detect frauds. Inadequate training/competence, audits not being designed to unearth frauds, connivance and conflicts.

On competence, the training imparted by ICAI and the rigour one undergoes is of a high order. While the ICAI has been revising its curriculum, there is a need to significantly upscale the training. If an auditor is incompetent or connives, speedy disciplinary action is the only solution. NFRA is now a reality and hopefully, an independent regulator brings credibility to the process of professional regulation. While there is a need for public education to explain that an audit is not designed to unearth frauds, it is indefensible to explain a fraud which renders financial statements incorrect, remaining undetected for years!

Finally, there is the issue of conflict. Auditors have become multidisciplinary firms. Some audit firms accept audit at low fees and view audits as loss leaders and a means of building "strong relationships" with clients to sell other services. While rendering some of the services is prohibited under the Companies Act, those are very few. The field is still left vast open to render several other services and audit "relationship" is used to promote them. I view audit function as a sort of policing and to permit an auditor to render other services results in the creation of conflicts. Many global MNCs and countries have a blanket ban on availing other services from auditors. India should consider this at least for listed and large companies.

On other attest functions, there have been instances reported of CAs signing certificates without appropriate verification. As the PM stated, there is an inherent trust placed in the signature of a CA and it is imperative that this trust is not violated. The appropriate discharge of the audit and other attest functions is the genesis of the respect for the profession of accountancy.

On the practice of taxes, this is not an exclusive prerogative of the CAs. On the one hand we have ongoing complaints regarding high-handedness at the tax office and legitimate claims being denied; on the other, there are reported instances of CAs helping clients with book entries, advice on modes of tax evasion, selling tax evasion products and what not. Helping clients to blatantly evade tax is akin to connivance and needs to be a matter of professional discipline. Professional advice on tax matters needs to evolve and be imparted on the basis that a client is more likely than not to succeed on the basis of extant law.

It is time that the ICAI and senior professionals defend the profession and ensure that it does not become the scapegoat every time a financial scam occurs. There is also an urgent need to set new professional and ethical standards to deal with the siege which the profession finds itself under. We are an important cog in the wheel that can help India be an economic superpower and should continue to be relevant.

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