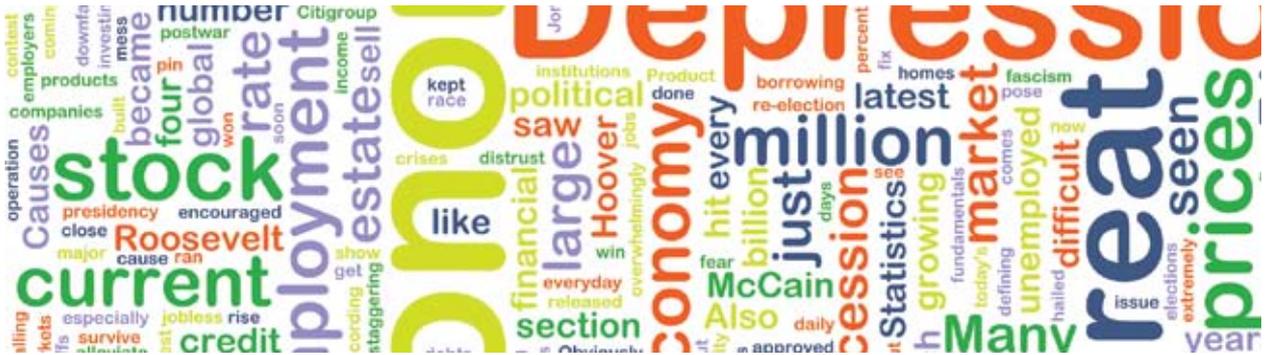


## Role of Chartered Accountants in the Current Economic Syndrome



The booming economy and rapid changes across all levels of businesses and society not only offer plethora of opportunities but also pose multiple tough challenges. The present day accountant handles diverse functions, as a score keeper of pecuniary transactions, controller of finance, counsellor for business decisions, supervisor of legal compliance, and negotiator with business partners/contractors, and assists the Board in a company to take the right decision. It is the primary responsibility of the accountant to install and maintain internal control systems taking advantage of the developments in the field of Information Technology so as to provide checks and balances at every stage of business operations. We as a respectable profession cannot be silent spectators to the happenings around us. In so far as money matters, we are into it and should do on our part whatever is possible to save resources and see that the Government's envisioned policy of "inclusive growth" is made possible. In the backdrop of the above we may do some introspection as to how best we can demonstrate that we are partners in Nation Building. This article delves deeper into the thought process regarding the role of Chartered Accountants in present times.

We are witnessing the social fabric undergoing a tumultuous change. Technology moves fast nullifying time honoured myths and beliefs. Knowledge explosion by leaps and bounds takes the centre stage. Research unveils the growth potentials in every field of economic and social activity. Economic fundamentals of the country prove to be stronger, despite aberrations time and again. Manufacturing and service sectors make good stride. The resilient Indian Economy proved its ability to tide over recessionary trends with gusto. Health and education receive unprecedented attention. Successive good monsoon brightens up agriculture. Infrastructure is gaining momentum. Government is sprawling its departments to cater to the welfare of society. Larger and larger allocations are made year after year to usher in inclusive growth. Lifestyle undergoes a significant change. Cross-border acquisitions in and outside India are more pronounced. These positive notes augur well for consolidation in the professional field of accountants in the coming years. Given this kind of encouraging drift in the society, the outcome should be a harmonious and peaceful life on this planet.

The situation as testified today is just the opposite. Imperiousness and intolerance, common these days,



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**O**ften the accountant has to mix with and work in the company of heterogeneous group of people with differing levels of mind-sets and dithering moral values and ethical standards. He should conduct himself in a discreet manner and act independently and prepare the report in due compliance with the legal requirements and in accordance with the prescription of accounting standards. Leniency and implicit faith cannot be accommodated in professional work, as otherwise independence of the audit profession and diligence in the discharge of duties cannot be ensured. 

takes the society in a different trajectory. Growth and inflation are at loggerheads. The RBI is faced with the unenviable task of balancing growth and inflation. Human ingenuity is such that it always centres on the self and self interest, invariably escorting to corrupt practices and dubious acts. Of late, people do understand that besides the governmental and non-governmental agencies, the corporate business houses do have a responsibility towards the society's wellness, to justify the fact that they exist not only for their own sake but to safeguard the community whose patronage and blessing in some form or the other make them feel that they are not unwanted intruders but welcome partners. There is a mounting cynical feeling when an industry or factory is to be located in some underdeveloped agrarian soil. Even infrastructural ventures have to surmount such obstructionist attitude from some local quarters if they were to make inroads into their livelihood. Securing their confidence and habilitation of lives should be top on the agenda of any such industrialisation move. The Economists and the Nation Planners should develop holistic attitude and should weigh the pros and cons in an unequivocal manner if the dream of "inclusive growth" were to become a reality. As otherwise the gulf between "Haves and Have Nots" would widen and we are all well aware of its drastic impact on the society.

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### **What Ails the Economy**

There are innumerable factors affecting the economic lives of the society. Commerce has a vital role in shaping the economic fortunes of the country and its

citizens. Business decisions are normally taken for the sustainability of operations in the years to come and to enhance stakeholders' value. In some family-run businesses professional management takes the back seat which results in wastage of national resources and corporate governance is merely a compliance ritual. Over enthusiastic entrepreneurs, some start-ups and overzealous consultants dream of building castles in the air with utter disregard for the fallouts of their actions. The regulators, on their part tighten regulatory measures to arrest further damage and curb economic offenders. Economic reforms pursued in a tepid manner under pressures from various sectors lose their significance and do not at times percolate down the line to benefit the underprivileged. Funds allocated on paper either are not spent for the avowed purpose or do not in some cases reach the targeted programme. Corruption is becoming endemic. Moral values and ethical standards should be given prime importance in public spending. Corruption is not a political issue but an economic issue too. Strict on-site monitoring by the concerned authority or a Chartered Accountant should be in place to watch the progress of any economic or social programme/project. Reports flow in belatedly which cannot rectify the situation. Committees or Enquiry Panels spend scarce resources and time probing the cases of scams and corruption. Action should be oriented towards retrieving the money lost.

Corporate entities undertake projects which overshoot the estimated cost and lead to time over-runs. Innovative accounting policies followed by some entities in boosting the top-line and the bottom line play havoc in the long run ruining the sustainability of business. Inter-corporate deals are fraught with ulterior motives of vested interests. Ultimately the malady would spread to the banking sectors increasing their bad/non-performing assets.

The chieftains of industry are well aware that investment aimed at getting tax benefits alone may not be commercially viable, a mere waste of the nation's resources. That was the case with the erstwhile Section 32A of the Income Act 1961. All investment propositions should be examined from multiple angles. A Chartered Accountant can well fit in such a job, of course with assistance from respective technocrats and market men. The Government's concern in any private investment is (a) generation of employment, (b) environment protection, (c) contribution to the exchequer and (d) wealth creation for the nation. These objectives can be analysed and presented conclusively by the accountant, if an entity wants to foray into a new venture on a mega scale. In such a situation, the need for independence of the accountant is of paramount importance who could dispassionately give his views

on the project's economic viability and social good.

Given the state of affairs on the economic front, the question now arises as to who is the Conscience Keeper of the Nation? (i) The Government (ii) The Corporate Management (iii) The Professional Accountant (iv) The Regulator. Undoubtedly all are and supplementary to each other and jointly accountable to the public besides the stakeholders. That is why any new economic project whether in Public sector or Private Sector or Public Private Partnership undertaking should be scrutinised in 360 angles and the social outcome examined before final approval by all concerned.

### Changing Facets of an Accountant

The present day accountant handles diverse functions, as a score keeper of pecuniary transactions, controller of finance, counsellor for business decisions, supervisor of legal compliance, and negotiator with business partners/contractors, and assists the Board in a company to take the right decision. It is the primary responsibility of the accountant to install and maintain internal control systems taking advantage of the developments in the field of Information Technology so as to provide checks and balances at every stage of business operations. He also represents in certain committees of Government, and offers valuable suggestions. Governmental investigation/inquiry committee enlists the services of chartered accounts in their probe against any fraud or irregularity. In the wake of globalisation mergers and acquisition (including cross-border) (M & A) are on the ascent. The services of Chartered Accountant are indispensable in M & A deals. As the ambit expands multi-skilling is inevitable for the Chartered Accountants.

Other duties undertaken by a Chartered Accountant include those of an Arbitrator for settling disputes, especially those connected with insolvency work such as the preparation of statements of affairs and the duties of a trustee in bankruptcy or under a deed of arrangement. As he undertakes demanding

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assignments, the Chartered Accountant, should develop business acumen and numerical ability, good communication skills, objectivity, independence of thought and be able to work under the pressure of deadlines, while maintaining equanimity at all times.

### Financial Reporting

Either in service or practice the accountant is the mouthpiece to announce the performance of the undertaking. His report is relied upon by various stakeholders and therefore he should not swerve from value systems and ethical codes. Even while change of auditors the starting point for the new auditors is the latest audited accounts. When the final word is pronounced on the accounts it should be unassailable and should be able to bear the test of any scrutiny. Transparency in financial reporting is as important as the independence of auditors. Reporting modes are evolving aimed at transparency and instant retrieval data. Convolved investment, cross-holdings and creation of step-down subsidiaries make it all the more difficult to decipher the real controller of the business and leaves the layman in a fix so as to understand what the numbers in the financial statement purport to convey.

Often the accountant has to mix with and work in the company of heterogeneous groups of people with differing levels of mindsets and dithering moral values and ethical standards. He should conduct himself in a discreet manner and act independently and prepare the report in due compliance with the legal requirements and in accordance with the prescription of accounting standards. Leniency and implicit faith cannot be accommodated in professional work, as otherwise independence of the audit profession and diligence in the discharge of duties cannot be ensured.

Convergence with global standards opens up a plethora of irreconcilable issues for which the ICAI is assiduously on job to iron out seeming differences and brings out draft standards for approval of members and concerned industries. Hitherto accounting was based on Historical Cost and the time is now for adoption of Fair Value, aimed at the faithful representation of figures on the financial statements for authentic assessment of the business value for any users of the financial statement. There may be scope for undue inflation of the figures. The guidelines given and procedures prescribed should be scrupulously followed. The accountant should use "best practices" in this realm of activities emulating from others who were assigned such conversions. Another vital region where disharmony could surface is Tax accounting and financial accounting. The resolution could happen as we progress with the convergence with the global accounting.

### Audit and Attestation

In a business it is common to come across various vested interests that may tilt the balance, far from conforming to the standards and cause jeopardy to faithful reporting. It is our experience as to how to handle such situations in maintaining our independence and present the report according to Regulatory Frame Work. Where good advice does not carry conviction, a suitable audit remark, supported by documentation of the processes of audit work performed would become handy and helpful. As the economy moves fast on the growth path, suitable audit tools are available to track the transactions to the root to unearth any missing link which would throw light if something were amiss. Constant developments of software tools in the audit function are taking place which the auditor should use to his best advantage.

It is always better to test the accounting system installed under electronic accounting model and to ascertain the infallibility of the system and the operator's integrity. If a well proven system is in place which embodies all elements of internal control and check system leaving no scope for miscreants to feed unauthorised entry or correction thereof, it is a safeguard as a firewall for data security. The cardinal principles of internal check on mistakes and irregularities and inter-control for authenticity of entries should have been engrained in the soft ware. Care should be exercised while uploading balances from one system to another in case of change of software.

While auditing the financial statements, it is also imperative to see that the "Notes" drafted are in congruence with the figures presented in the accounts and corroborated with facts gathered from the minutes of the Boards and contracts with business partners. Tactical drafting may distort the spirit and intention of contracts which may lead to drawing wrong conclusions. This aspect needs to be carefully studied before finalising the accounts.

### Internal Audit

Once relegated as a legal ritual, the real worth and ability of contribution and value addition of this function are unfolding in a large measure in a number of organisations. The Audit Committees of the Boards, of late are more concerned with the Reports of Internal Audit and the remedial action taken in regard thereto. Since it is concurrent, the slippage of revenue or wastage of resources could be stopped then and there. And thus it mitigates loss and opportunity. Proprietary angle also is brought within its ambit or charter by the forward-looking management of corporate. It is not the report but the message conveyed that is of importance to judge whether there is any derailment of

operations. Corporate entities are increasingly encouraging "Whistle Blowers". Due recognition of the importance of Internal audit report will help understand the weakness in operation and to initiate remedial action. At times the reports may propel a review of corporate budget midway and take action for course correction and revising the budget.

The team of internal audit would include besides an accountant, personnel from operating team, quality control, project management, and an industrial engineer, reporting to the Board through the Audit Committee.

### Ethical Standards

In these days of uncertainty of what is there in store for the future and how the humans change their life style to suit personal pursuits, organisational interest needs to be zealously safeguarded by enforcing uncompromising ethical codes on the professionals in charge of key positions. Auditor should review the entity's value systems while judging how effectively the governance norms are put in practice. Different stakeholders are likely to be impacted in a variety of manners, be it a creditor, lender, shareholder, employees, the government, the regulators and the public at large.

The budding chartered accountants should be inculcated in their young minds about the widespread ramifications if the moral value system is overlooked and the ethical standards are not applied in all its strictness. The new generation of chartered accountants who have the advantage of technology, and who have to comply with quite many economic legislations in the coming years would take the prestige of the Institute to greater heights if only they firstly well understand the ethical standards of conduct and ensure unfailing adherence at all times. Coupled with this their professional excellence, they can win accolades for the accountancy profession.

The people's perception of a chartered accountant has undergone a sea change. He is there in every walk of life where pecuniary dealings matter. His spectrum of activities spreads far and wide. The emphasis should be on moulding the up-coming chartered accountant with (a) impeccable traits of personal behaviour, (b) capacity to catch up with changing times on the technology and professional front and (c) ardent adherence to the ethical standards.

### Conclusion

These thought waves are vented in these columns on the eve of celebrations of "Chartered Accountants Day" to arouse our robust enthusiasm to take up newer positions in the complex Economic Society and to prove to be the real partner in Nation Building. ■