SOME PROBLEMS FACING A PRACTISING ACCOUNTANT

During the course of his professional career, every chartered accountant meets with many problems. Some of these problems are satisfactorily solved either by his unaided efforts or with help and advice from others. These excerpts have been taken from Shri R. Venkatesan's speech given at the First Conference of Chartered Accountants of India under the session called "Role of an Accountant" in Delhi in April 1954. In this write up, the author has suggested that the Chartered Accountants should not forget or give up the ideals and standards to be obtained by the profession while facing these problems.

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During the course of his professional career, every chartered accountant meets with many problems. Some of these problems are satisfactorily solved either by his unaided efforts or with help and advice from others. There are, however, certain practical or personal problems which cause much doubt and distress in his mind. He feels he is taking up much responsibility and even all the clients' worries, just because he gets a fee. He is liable to be hauled up in court to answer charges of abetting others who have committed misconduct or misfeasance. To what extent can he defend himself on some out-of-date legal decisions that he is not an insurer, he is not a bloodhound, but only a watchdog, that he was not in the knowledge of day-to-day affairs of the company, that he relied on internal check, etc.? The average man in the street will not accept such excuses. He relied upon the auditor to protect his interests. As soon as a fraud is reported in a company, the shareholder asks: How is it that auditors had not found it out earlier? Even if he is told that auditros come only at the end of the year to check the accounts, he wishes to know why a concurrent audit was not done. The accounts of a company have been checked by the practitioner for several years and it is found that the cashier or other member of the staff not only has been misappropriating moneys during the period immediately preceding the discovery of the fraud but has been writing incorrect accounts for several months or for a number of years. The auditor has to admit that if he had verified the accounts with suspicion, he could have found out the fraud. He trusted the senior members of the staff of the client as they had been friendly to him, ready to supply him with information, and

they did not appear to him as persons who would plan frauds. The shareholder, however, wants the auditor to be punished along with the directors.

In the profession, to make more money, you have to work harder: more clients mean more worry, unlike in commerce business, where it is possible to have large bulk sales and make substantial profits When a business is established and a product is advertised, it takes care of itself and sales get increased. Even successful practitioners feel that they would have been more successful in business. There are many who would gladly exchange the professional status for a commercial or government job fetching an equal remuneration. The practising acountant sees others who entered business as acountants and then became directors of those companies or otherwise in control of those companies often with little or no capital of their own but having others' money for use. In a contract of employment there is provident fund saved up and besides the monthly salary the senior employee or director is provided with a house to live in or a house allowance, servants, a car for his use and other amenities. Even his income-tax is often borne by the business itself. Some may say there are ups and downs in business but then the profession is allied to business and there are corresponding ups and downs in the profession also. It may also be said that there is more knowledge gained by being in practice than being an employee. This is not often correct. Surely an employee of a lagre organisation gets more experience than a practitioner with a few small clients. It takes many years for a beginner in practice to establish his profession and earn enough to maintain himself and his family, leave alone savings for the future. The need for audit and professional advice is certainly being felt more and more, not only in large business houses but by proprietary and small concerns; yet it is felt that the profession is getting over-crowded, as many new entrants are coming each year. The practising accountant is also affected owing to the policy of the Government. As a result of nationalisation of certain industries, the auditor loses practice, as the audits of such industries are taken over by the Local Fund Department. In some States, Government auditors have taken over the checking of charitable trusts, schools and co-operative societies, which were the mainstay of certain auditors.

It is all very well to say that an auditor must be fearless and report on all irregularities, but which auditor does not make a compromise of such principles, unless grave issues are involved. Even in daily life we wink at so many unlawful activities and irregularities either because they are petty or because we do not wish to involve ourselves in complicated situations. To what extent should an auditor oblige his clients? Can we take it as a rule that in small matters we should not quarrel over clients' or directors' improper acts, but then where is the line to be put? Will the non-disclosure of an extra remuneration to the Managing Director of ₹5,000 in a business of ₹5 lakh capital be termed dishonest? Conflict often arises between the auditor's real duty and what he is obliged to do under influence. It is well known that the auditor owes his appointment to directors mainly, though shareholders approve the appointment to directors in a meeting. Which company is there where no favours are shown to individuals known to directors? Is it always the lowest tender that is accepted for purchase? Is it not that friends are given the contracts and selling agencies? Is it the auditor's duty to report on such matters where part of the profits of the company is diverted to the promoters or directors or their friends? Again it is often found that directors holding salaried positions in a company vote for themselves additional allowances for entertainment, conveyance, house rent, etc. After all, most shareholders only want 4 per cent to 6 per cent per annum on their investment in the company and do not care to attend the annual general meetings. Even if the chartered accountant takes up the shareholders' cause or the public cause, there will not be much appreciation, but, on the other hand, he loses the job as the directors' nominess are able to carry the day in the annual general meetings, which are usually held in out-of-the-way places along with a meeting of the directors so that expenses may be paid to directors who alone attend the meetings.

While preparing an audit report, how often we find that auditors strain much effort to write a non-commital report or try to pass on hints rather than openly criticise. The principle seems to be neither too much infromation nor complete non-disclosure.

While verifying the accounts of a client, the auditor finds that there are some matters on which he should make comments, but if he qualifies the report usually given at the end of the balance sheet, it may attract more attention than was meant and may even lead to ruining the business. He, therefore, does not qualify the certificate, but sents a separate report to the directors of the company who, however, are not obliged to read

it at the shareholders' meeting, The auditor is, therefore, in a dilemma as to whether the discovery of certain items of mismanagement is of such a serious naturer that he should modify his certificate.

In very many cases the auditor is left to himself with the books and records and he has to find out all the facts himself as the client will not give out all the details necessary; in fact, some of the clients are not frank or straightforward. Practitioners are also familiar with the complaint from the Income Tax Department that in spite of the supposed exchaustive checks by the auditors, they are not able to find excessive and unauthorised expenditure not really incurred by the clients but found in the books.

There is, of course, the other problem that where the chartered accountant knew of any false expenditure shown in the accounts with a view to reducing the income-tax burden, what should be his attitude? Such over-statement of expenses may be told him by the client or he comes to know of it by himself. A client would have been for many years honest in dealings, but he might have now been advised by someone else to exaggerate his expenses. If the auditor asks the client, there will be only one asnwer, that is, the client will beg of the auditor to be in his confidence. Would it be proper at this stage not to ask your client many questions and satisfy yourself that you are not a party to overstatement of expenses? Or should you be conscientious and give up the client? Will that be enough? Is it also your duty to inform the Income Tax authorities? It is said that we should guide our clients in securing as low an assessment as is legitimately possible. It should not be evasion by suppression of facts which ought to be disclosed to the Income-tax Department. But what about carefully considered schemes of the taxpayer, the effect of which is to artificially reduce his liability? The Insurance Department, Income Tax and other departments of the Government also want the auditor to be a policeman. They actually require that the clients should be handed over for punishment, whenever they are found to be doing anti-national activities. Surely, an auditor cannot say that it is his duty to protect a client against all acts of the Government.

In the present context of capital *versus* labour, which side is the professional accountant to join? It is common knowledge that accounts can be completely different depending, on the view with which they are prepared. A capitalist would like to charge excess depreciation, so that a secret reserve can be made with a view to transfer of profits from one year to another. It is believed that small profits in published accounts will not attract labour who may otherwise claim large amounts by way of bonuses.

When certifying the accounts of a company, should it be borne in mind by the auditor that outside interests such as bankers and propective investors will be guided by his certificate? If the position of the business is better than what is shown in the balance-sheet can the auditor courageously certify the accounts as true and correct?

As it is impossible fully to verify all the entries in the books of large business, the auditor has to confine his verification to a test check of certain books and records. What is the limit of such test checks? How much is the routine checking to be done? Legally can he protect himself that a test check alone was sufficient in the circumstances? Will it be in order for him to scrutinise the agreed balance-sheet and straightaway proceed to vouch the assets and liabilities? Can he just see the basis of valuation of assets and look up important points here and there than do regular routine work?

When there are two or more joint auditors for a company, how is the responsibility to be divided? Each auditor may have his own views or a particular comment to be reported, and it would certainly be a problem, if instead of all the auditors agreeing on the issue, one of them sided with the management against the other auditors.

The chartered accountant having a large clientele has his own problems. If it is a firm with a number of partners and qualified assistants and numerous clerks and articled clerks, the personal touch between the cleints and the senior partners is lost, and there is a considerable amount of work which cannot be attended to by the partners them-selves. Too much reliance has, therefore, to be placed on assistants or on unqualified clerks. The problem then is to find and keep honest, intelligent and reliable staff. What part of the work is then to be done by the partners? When something goes wrong, should the auditor be punished for the carelessness of his assistants?

A problem with a small practitioner is that as he cannot refuse to take untallied books for checking, he has to verify them fully to find out where the difference lies and his experience will be limited. In complicated tax problem, etc., he will need guidance...

The practitioner is sometimes confronted with the question whether he should specialise

in a particular line of work, such as income-tax, costing, investigations, liquidations, etc, or whether he should do whatever job comes to him...

There are instances where the management put certian enteries in the books, and when questioned by the auditor, they produce legal opinion to prove that such entries are in order. The chartered accountent is not satisfied that it is in the interests of shareholders, but is presuaded to accept them and is told that though such entries are incorrect, they are not illegal...

It is not quite clear as to the exact scope of work to be done by an auditor in regard to stock-in-trade. Some years ago, there was a legal decision that an auditor need not take stock, but it is becoming increasingly realised now that under present conditions this decision cannot be taken at its face value. A test check at least should be done. The valuation by a managing director alone is not enough. The profits of the company depend on such valuation and surely the auditor cannot certify the accounts without verifying that the stocks have been valued correctly. He is not an expert and does not know more about the goods than those in charge of the business, yet he has to see that a consistent method is adopted from year to year.

Various items comprising stock have been purchased at different intervals and when stock statements are prepared, the problem arises as to which of the cost prices at which the goods were purchased should be taken for calculation purposes. Are we to adopt the "first in, first out" method, or the "last in, first out" method? Or, should average prices be taken?

What is meant when it is said that the basis of valuation of stock should be lower of cost or market value? Is this rule to apply to each item in the stock sheet, so that some items may be at cost, while others at market values? Or does it mean that for all items cost price and market value should be taken and then the lower of the two values is to be taken...

Occasionally an auditor is called upon to value the goodwill of a business. This is often a complicated affair and no definite answer can be given. Some would take only super profits for calculation, while others would take into account the entire profits of the concern for capitalising and deduct therefrom the assets of the business. Again, what is the rate percentage to be adopted? And how many years' purchase should form part of the goodwill value?

Is it part of an auditor's duty to see that the directors and officers of a company have complied with all the provisions of company law? If they have not filed the return of mortgages, or if the share money has not been deposited in a scheduled bank as required by the Companies Act, is it the duty of the auditor to point this out? It may be said that the auditor has to confine himself with verifying accounts and not supervising work done or to be done by the management.

To what extent can an auditor rely on returns from branches? In large concerns or banks, it is certainly not possible for the auditor to check the account of all the branches. But then, is it in order to verify the cash and investments at head office, leaving out a large volume of such items in the branches? In some concerns the branch statements are audited by chartered accountants, but it is still the practice for most professional men to sign balance sheet relying on statements signed by the agents of the branches who are part of the management.

A problem that arises in company audits is the question whether the balance – sheet is to be signed first by the dirctors or by the auditors. The directors often say that they are not experts in accounts and that they rely on the auditor's signature on the statement before signing it the mselves. The auditor can state that he is not responsible for the reliabilty of the staff and that the directors should first sign it. Similary, while checking vouchers, the auditor relies on a responsible official's singnature or initials on the voucher, but does this preclude him from going into the merits of the expenditure shown on each voucher? He is told that he should not doubt the item as the managing director has initialled it and takes responsiblity.

A problem that is allied to the above is to ascertain which of the unusual expenditure in accounts requires directors' minutes and which requires shareholders' minutes. It may be easily said that all administrative matters should be dealt with by the directors. Payment of high salaries or commission to the management and unusual heavy writing off of assets and undervaluation of stocks are also passed by the directors.

By mentioning the above problems facing a practising accountant, I do not suggest that a chartered accountant should foreget or give up the ideals and standards to be obtained by the profession. It is ncessary that the auditor should maintain his independence. It is not only from the information supplied to him that he certifies the account but it should be from his own experience of similar business. ■