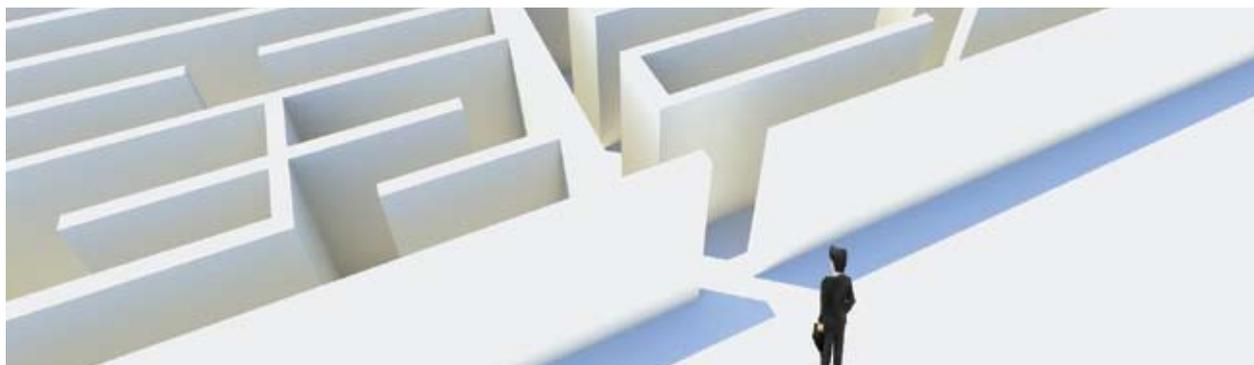


Accountancy Profession – Challenges and Opportunities



The Accountancy profession in India has grown tremendously in terms of capability and capacity. It has met the challenges of a high growth economy, the opening up of the country and competition due to globalisation. Accounting professionals have acted as true business partners in the corporate sector, discharged their fiduciary obligations as Auditors and also contributed to policy making. The future holds many more challenges and opportunities than the past. As India globalises further and becomes a larger part of the global economy, complexity will increase as also the demands on the profession. But the rapidity of the change and the greater inter-dependence between countries is creating more systemic risks, of a kind that we have never experienced before. No country seems to be immune from such risks. Read on...

The future challenges have to be seen in the backdrop of major economic changes of the last four years including the global financial crisis, the drying up of liquidity and implosion of the financial system in the USA. The European Union is facing a crisis of unprecedented dimension, with talk of even the break-up of the monetary union. There are real prospects of some countries in the EU becoming bankrupt! We have come to realise that there is no corporate or may be, even a country which is “too big to fail”.

Closer home, the lack of consensus and political will on fiscal as well as policy matters seems to rob the optimism prevalent in the economy, just as we thought that we had met the challenges of the crisis.

Double dip recession in some countries and significant fluctuations in foreign currency markets are examples of things to come and we realise that management of significant unpredictability will be part of our lives as we go forward.

Business Challenges and Professional Opportunities

As we traverse through this uncertain and unpredictable economic environment we have the ability to reshape



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the future, blessed as we are with a young population, growing consumption and higher savings. I have enumerated challenges on account of globalisation and those on domestic front separately, along with the opportunities they present.

Global Expansion of Indian Corporates

Indian businesses are no longer insulated, inward looking or slow moving but are vibrant, highly optimistic and willing to explore the uncharted territory in the highly competitive international markets. The experience of over one and half decades, from early 90s till 2007, has given Corporate India the confidence to grow business beyond its boundaries. However, we have also seen a number of examples of reckless expansion in unrelated areas, funding such expansion through debt or convertible instruments and its disastrous after effects.

Proactive Risk Management

Such an environment calls for proactive risk management. We can add significant value to business through quality risk assessment and management. We are well qualified to do this because of our training and deep understanding of finance. The very existence of an organisation could be threatened if risks are not identified and addressed in time. No one likes to sell the cash cow to retire a debt raised for an unattractive project but many companies have had to do this in the recent past to survive. Such experiences could have been avoided through some amount of conservatism, prudence and better risk management. In fact risk management tops Board agendas all over the world, shocked as corporates are of the impact of the financial crisis.

Management of Foreign Currency Risks

Managing the downside impact of volatile foreign currency fluctuations is also a critical part of risk management. During the crisis resulting from the financial meltdown, we heard a lot of cases relating to companies entering into the foreign exchange derivative market without basic understanding, in anticipation of a wind fall gain. While there is always a temptation to make finance function a “profit centre” in good times, such temptations lead to a very aggressive risk management. Finance should not become a profit centre as the core activity of finance is enterprise risk management not earning marginal profits. Boards and

Effective performance measurement as well as maintenance of sound internal controls of increasingly complex operations around the globe requires significant investment in skilled resources and IT systems of an organisation. With inorganic growth of Indian companies in different geographies the challenge of managing disparate information systems is acute. Finance professionals can really add value in the transition period as well as during new systems implementation phase enabling companies to meet stringent reporting timelines.

Professionals need to desist from adventurism in volatile markets.

International Taxation and Compliance

Rapid international expansion also brings challenges related to international taxation, compliance with local regulations, raising funds at optimum cost in international markets and compliance with securities laws of different jurisdiction.

Global Indian entities are always exploring ways to optimise the “consolidated” effective tax rate. To achieve this, finance professionals need to have a very good understanding of ever increasing number of Double Taxation Avoidance Treaties (DTAA), comprehensive knowledge of transfer pricing principles and basic understanding of tax laws and foreign currency regulations of other countries where Indian businesses operate. The recent past has seen many countries put in place policies to prevent treaty shopping and other abuses which needs to be factored in.

Robust Information Systems

Effective performance measurement as well as maintenance of sound internal controls of increasingly complex operations around the globe requires significant investment in skilled resources and IT systems of an organisation. With inorganic growth of Indian companies in different geographies the challenge of managing disparate information systems is acute. Finance professionals can really add value in the transition period as well as during new systems implementation phase enabling companies to meet stringent reporting timelines. This requires significant experience in project management and it is indeed a very satisfying and rewarding professional experience.

Harmonisation of Accounting Standards

Lack of adequate harmonisation of accounting standards across various countries in which Indian corporates operate has made the task of preparing financial statements highly complex. Some large corporates have voluntarily adopted IFRS to provide investors better clarity but the adoption level needs to improve. Globalisation of Indian organisations warrants early adoption of IFRS, which will help us benchmark our financial statements with the rest of the world. This transparency will help us attract additional foreign investment and create more opportunities for finance professionals.

This is an area where the ICAI should see well into the future and push for implementation of Ind AS converged with IFRS to ensure that Indian corporates take a lead and lower their cost of capital. As India globalises further we need to become a leader, participate in standard setting and adopt tougher standards faster than the rest to create the capability to globally dominate the profession. It does not pay to be a follower any more.

The profession too should introspect deeply in this area. Accounting and Auditing is at the heart of the profession and is its core competence. This implies that we should bite the bullet and reorient ourselves to global standards early in the race so that the entire globe becomes our market and we earn a name for the quality of our knowledge and capability as leaders in standard setting and adoption. Diluting standards to meet exigencies and appeasing certain interests does not add to our professional standing.

India as a Preferred Destination for Foreign Investors

The Indian consumption story, liberalisation of policies, opening up of new sectors, and abundant

talent pool has resulted in a significant increase in the amount of FDI from \$4 billion in 2001-02 to \$47 billion in 2011-12. The compulsions of vote politics and some resultant delays policy front may have stemmed the flow of investments but I am very optimistic that in the medium to longer term, India will continue to be a preferred destination for investments. This will continue to generate significant opportunities for professionals both in the corporate world and for firms who (a) have relevant experience, (b) have kept abreast of new developments and (c) keep seeking new opportunities.

Challenges Faced by Entrepreneurs

India is ranked as one of the *hotbeds* for entrepreneurs and as per the latest information venture capital and private equity firms invested about \$9.5 billion in 2010. Like the FDI, PE investment will also go up in the coming years. Entrepreneurs need the advice and assistance of trusted finance professionals in formation and structuring of their entity, compliance with various regulations, creating a cost-effective finance function, tax effective structuring of employee compensation, raising funds and doing the business the right way, etc. This helps them focus on business growth and rewarding their investors handsomely, with an assurance that that they are in safe hands.

It is important that finance profession identifies such niche opportunities and efficiently satisfies the unique requirements of entrepreneurs. Our profession would have to understand the pain points of this sector and offer suitable solutions. A “one size fits all” approach would not really help. On the other hand, the finance professionals can also benefit from the positive rub-off effect of their association with entrepreneurs who by nature are passionate, have the desire to solve problems and are hungry for success.

M&A and Capital Markets

The primary markets have been subdued for a fairly long period due to negative sentiments prevailing in the economy/secondary markets. It is said that most of the innovative ideas, new business models, etc. take birth in very adverse business environment. Once the cloud of uncertainty passes, we will once again see significant activity in M&A and capital markets space. It is important to plan now and to be prepared as those who are ahead in this race will benefit the most when markets open up.

Margin Pressure and Ethical Behaviour

With a slowdown in global economy, lower consumer

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With trade barriers breaking down and talent rapidly moving across sectors and geographies, it is imperative that professional firms upgrade their skill set, hire talent and intellectually engage such talent to provide them very good professional growth opportunity. Specialisation in any of these areas and/or tie up with firms offering complimentary services would result in significantly higher remuneration, which in turn, would help in attracting and retaining talent.

spending, higher input as well higher debt servicing costs we are witnessing a significant squeeze in margins. Under these circumstances, there is always a pressure to show better operating performance from all quarters. Finance professionals should not succumb to undue pressures and compromise on professional integrity as we are the custodians of interest of all stakeholders. We can't lose sight of the long term objectives of the business in favour of perceived short term benefits. It is important to stand up for values and ethical issues and not compromise at all.

Regulators all over are now having a policy of zero tolerance to shortfalls in ethics and compliance. Certain events have hurt the image of our profession globally and in India, caused by a cavalier attitude to ethics. Though there have been isolated instances, the repercussions have been widespread. Such events call for swift and punitive action from the ICAI and members of the profession to protect the integrity of the profession.

The Road Ahead and Need for Inclusive Growth

Growing complexity of Indian businesses has also made the task of accounting firms very complex. Even though a large number of Indian companies are reporting higher and higher international revenue the Indian accounting profession, generally, is finding it hard to satisfy the ever growing needs of Indian corporate sector. As such, Indian firms have to invest hugely in capability building, IT infrastructure, outreach, grow in size and depth and above all learn to navigate in the new milieu.

Globally there has been a massive consolidation with oligopolies developing in the profession with a reduction of choice and increase in costs for corporates. This has also increased systemic risks, as any large firm failing to follow standards, or having an unethical attitude for whatever reason exposes the entire system

to greater risk. It is, therefore, essential for Regulators to ponder over the unhealthy consolidation, pursuit of higher revenues and other ills and take steps to broad-base the profession and ensure that a wide array of service providers grow globally.

All the areas listed above offer a huge opportunity for finance professionals and to achieve that potential we need to get out of our comfort zone, venture out of traditional areas, familiarise ourselves with all aspects of modern day business. This can offer a win-win solution for professionals as well as organisations.

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Bulk of the newly qualified chartered accountants are joining industry or the very large firms instead of smaller firms or starting their own practice. This free market dynamic is a true reflection of what the young generation wants and what their career aspirations are. At the same time, it also poses the serious question of the relevance of existing small/mid-size firms who lack expertise and exposure. This has resulted in a large pool of talented and capable Chartered Accountants being left out of the net and not being able to exploit this truly challenging opportunity. We will have to seriously address this issue of inclusive growth. Collaboration, networking, mergers, consolidation, and partnerships, are means available to create an interdependent world and a larger number of service providers.

The ICAI, along with senior professionals in industry and practice, will have to think of ways and means to help and mentor fellow professionals to meet new challenges effectively. Chartered Accountancy course is known for its meritocracy and rigour and it has produced very capable leaders over the years.

I am confident that with the collective will of all of us we can further enhance India's image as a true source of high calibre accounting and finance talent. We can also create a model that can eventually be replicated in all high growth economies and by exploiting such an opportunity, may be, one day create many an accounting firms that increases the tally of the big global firms. ■