

Accountancy Profession: Moving Towards New Frontiers



For over 64 years now, the Institute of Chartered Accountants of India (ICAI) has played a pivotal role in introducing and seamlessly continuing the Chartered Accountancy course in India, regulating its members, prescribing accounting standards for the use of various entities and formulating technical literature to guide its members to perform their functions in an effective and professional manner. However, with a challenging business environment and chameleonic changes in collateral legislation, the work of the ICAI is far from over. This article reflects on what the ICAI has done in the past and what it could do in the future in a few critical areas of interest.

Change

The twin themes in the motivational book, “*Who Moved My Cheese?*” by Dr. Spencer Johnson which was published in 1998 are to keep moving and be ready to accept change— concepts which are as relevant today as they were when the book was published. These concepts would also apply to professionals such as Chartered Accountants who need to keep pace with the rapid changes in an environment where societal expectations from the profession are increasing every day and the economic marketplace has changed from a local portrait to a global landscape.



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The fact that the Chartered Accountants Act was passed in 1949, two years after the nation got independence, is a testimony of the significant role that the lawmakers envisaged for the Institute. Over the years, the ICAI has been instrumental in ensuring that more than 2,24,000 professionals qualify as Chartered Accountants, regulating them, and formulating best-in-class accounting standards and providing suggestion to the Government on taxation matters. Many of the suggestions given by the ICAI have been implemented in the Union Budget in various years.

Companies Act 2013

The Companies Act, 2013 passed by the Parliament has received the assent of the President of India on 29th August 2013. The Companies Act, 2013 has been notified in the Official Gazette on 30th August 2013 but the provisions of this Act shall come into force on such date(s) as the Central Government may notify in the Official Gazette. The rules that supplement the provisions of the Companies Act are being notified in phases. The ICAI has already taken up, at the highest levels, the impact certain provisions of the Bill would have on the accounting profession and would continue to actively monitor the policymaking in this regard.

In the Companies Act, accounting professionals, by both habit and nature, are normally keen to peruse the provisions regarding accounts and auditors. In the 2013 version of the Act, these are enshrined in Clauses 139 to 148. These clauses contain the normal provisions on the rights and responsibilities of auditors and the services that they cannot render. Ever since accounting accidents such as Enron and Parmalat abroad and Satyam in India, there has been a school of thought that suggests rotation of auditors as the ideal solution to their independence. Whatever are the merits or otherwise of this school of thought, the Companies Act introduces the concept of rotation of auditors, though the rotation is over such an extended period of time that the need for rotation could be diluted.

Clause 132 of the Companies Bill is something that many members would look at with a lot of concern. This clause constitutes a National Financial Reporting Authority (NFRA) to provide for matters relating to accounting and auditing standards under the Act. At first glance, it appears that NFRA replicates the tasks that were with the National Committee for Accounting Standards (NACAS).

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However, limb(c) of Clause 132 states that NFRA will oversee the quality of service of the professions associated with ensuring compliance with such standards, and suggest measures required for improvement in quality of service and such other related matters as may be prescribed. The following limb (d) adds more teeth to the power vested with the NFRA by stating that it shall have the power to investigate, either *suo moto* or on a reference made to it by the Central Government, for such class of bodies corporate or persons, in such manner as may be prescribed into the matters of professional or other misconduct committed by any member or firm of chartered accountants, registered under the Chartered Accountants Act, 1949. And just to make sure that the clause is comprehensive enough, a *proviso* states that no other institute or body shall initiate or continue any proceedings in such matters of misconduct where the National Financial Reporting Authority has initiated an investigation under this section and NFRA will have the same powers as are vested in a civil court under the Code of Civil Procedure, 1908, while trying a suit. The Chartered Accountants Act, 1949 was enacted with the specific purpose of regulating the members and the ICAI has done a lot of spadework in identifying and trying cases of professional misconduct committed by its members. The NFRA would seem to be usurping the right to regulate professional members from the ICAI which would render most of the provisions of the Chartered Accountants Act redundant. Too much of regulation through multiple regulators seems unnecessary, needless and would only result in duplication of duties. If there is any Institution at present which has the right, ability and resources to regulate its members, it is the ICAI.

It is normal for legislations in India to have an amalgam of the good and the bad. The Companies Act is no different. While the provisions relating to NFRA may not be welcomed with open arms

by all, there are other provisions in the Act which could benefit the profession. The Act mandates that certain class/classes of companies to be prescribed should mandatorily appoint an internal auditor who shall be a chartered accountant or a cost accountant (the reference to cost accountants would apparently be for cost audits) or such other professional as may be decided by the Board. Central Government may frame rules to prescribe the manner and intervals for conducting and reporting on internal audit. The objective of introduction of this requirement is to strengthen the system of internal controls in the wake of allegations of recent corporate frauds. As per the draft rules, Internal Audit is now mandatory for (i) all listed companies; and (ii) other public limited companies with loans/deposits in excess of ₹ 25 crore or paid up capital in excess of ₹ 10 crore. Though it is expected that most companies that fall under the selection criteria would have a robust system of internal audit in place, the provisions are meant for those that don't.

After Enron collapsed in 2002, US regulators reacted with the Sarbanes-Oxley Act (SOX). Though SOX had a variety of provisions, the entire Act seemed to be revolving around Clause 404 which mandated entities to take a relook at their internal controls by conducting at least one start-to-finish walkthrough for each major area of business activity. Much water has flown down the Mississippi since the enactment of SOX; the Act now lacks the aura of fear that it induced when introduced. The Companies Act 2013 learns from the experience on SOX and casts specific responsibilities on both the Directors and Auditors' to comment on Internal Controls. They are to comment on whether the company has adequate internal financial controls system in place and operating effectiveness of such controls. For this purpose, the term 'internal financial controls' means the policies and procedures adopted by the company for ensuring the orderly and efficient conduct of its

business, including adherence to company's policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information. It may be noted that the provision covers all internal financial controls, including those relating to operational areas (unlike the Sarbanes-Oxley Act, which limits the scope to internal controls over financial reporting). This would, therefore, cover an evaluation of the efficiency of operations of the Company.

The services of professional Chartered Accountants could be employed for both internal audits as well as to test internal controls.

International Financial Reporting Standards

With the support of the Ministry of Corporate Affairs, the ICAI has proactively committed convergence to IFRS in India. The ICAI set up a Task Force as early as in 2006 which has worked extensively to bring out Indian equivalent of IFRS Standards- christened Ind-AS. A key challenge in introducing a global concept such as IFRS in India is to secure the buy-in of different regulators-the Reserve Bank of India (RBI) for banks, Insurance Development and Regulatory Authority (IRDA) for insurance companies and the Securities and Exchange Board of India (SEBI) for listed companies. The ICAI has been instrumental in ensuring that 35 draft Ind-AS standards are ready for implementation.

In a recent article in the CPA Journal, Paul Practer, a former member of the IASB, provides detailed data points on how IFRS is fast becoming the single global accounting language. Out of 122 national jurisdictions surveyed, 101 require IFRS for all or most domestic listed companies and many of the remaining 21 also permit IFRS for at least some domestic listed companies. India finds a mention in this article stating that it permits IFRS for some listed companies.

SEBI has given the option to listed entities to prepare and file consolidated financial statements in conformity with IFRSs issued by IASB. Approximately 11 companies (mainly ones with foreign listings) have taken advantage of the IFRS option. The SEBI option to prepare consolidated financial statements in accordance with IFRSs issued by IASB is generally regarded as a temporary measure until the new Indian Accounting Standards converged with IFRSs (Ind ASs) are officially adopted.



It is expected that in 2014-15, the ICAI would continue to work relentlessly with the MCA to implement the road map for transition to IFRS. The ICAI is already running a popular Certification Course in IFRS for its members and many members have gone through this course and understand the nuances of IFRS. The need for an early introduction of IFRS cannot be over-emphasised due to the fact that IFRS standards themselves are being amended to tune themselves to practical scenarios. A late introduction would mean that India would always be two steps behind the global trends.

Students

Students form the life line of any organisation engaged in education and training for a professional course. The ICAI is probably one of the few institutions that have more than 7 lakh students pursuing the course at present. There are three stages in the life cycle of a student to become a professional chartered accountant: the common proficiency test, the intermediate course and the final course. The main advantage and the USP of the CA course is that

it provides a comprehensive exposure to students on all facets of accounting, auditing, taxation and all other business laws which are coupled with the mandatory practical training in a practicing accountant's office. This ensures that the students who qualify are technically very well equipped to be absorbed into the system; whether they opt for practice, or industry or to commence a business. If we add the mandatory General Management and Communication Skills Course (GMCS) to this, it provides an assurance that the Chartered Accountant can match any other professional in all skill sets. The ICAI is endeavoring to improve upon the training course for students by ensuring that the practical training focuses on practicals and the examination dives deep into case studies and real life examples. The present day student needs present day technology and hence the ICAI is contemplating *inter alia*, a Cloud Campus coupled with a next generation interactive learning management system for students.

In an era of unlimited internet and proliferating social media, it is critical to establish connect with the students. The ICAI is contemplating many



initiatives in this regard including maintenance of an e-diary for students.

Double-entry System of Book-Keeping

The double-entry system of book-keeping is the only system of book-keeping that finds acceptance amongst those who matter and in global forums. Yet, it is a fact that in many Government undertakings and departments such as municipalities, the cash-based single-entry system of accounting is followed even in the present day and age. The ICAI would work with the Government to ensure that all these entities transition to the double-entry method of book-keeping in order that their books of account capture an accurate assessment of the transactions and their financial statements present the right view of their state of affairs. An accurate assessment would enable prompt and efficient decision making.

Research

The ICAI is primarily involved in the field of education and training – thereby research activities form an integral part of its core competencies. There is full-fledged Research Committee in the ICAI whose key tasks are to formulate Guidance Notes on accounting aspects and to publish technical guides, studies, monographs and such other knowledge material on generally accepted accounting and/or auditing principles. Over the years, the Committee has brought out high- quality publications on an eclectic variety of topics such as:

- Guidance Note on Accounting for Oil and Gas Producing Activities
- Technical Guide on Accounting Issues in Retail Sector
- Compendium of Guidance Notes Accounting
- Study on manner of IFRS Implementation in EU and Current Status of IFRS Implementation in Select Countries

- Excellence in Financial Reporting: Illustrative Guide to Presentation and Disclosures
- Technical Guide on Accounting for Special Economic Zones (SEZs) Development Activities
- Technical Guide on Accounting for Not-for-Profit Organisations
- Technical Guide on Share Valuation
- Technical Guide on Estimation of Future Cash Flows and Discount Rates for the purposes of AS 28, Accounting for Impairment of Assets
- Technical Guide on Accounting for Microfinance Institutions
- Technical Guide on Revenue Recognition for Software

Going forward, it is expected that the ICAI would collaborate with leading universities and institutions to encourage doctorate programmes in accounting, assurance, taxation, and finance and business management for members. In addition, it would encourage research by appointment of full-time researchers in the area of taxation, finance and other allied areas. The ICAI is expected to publish sector-specific research publications to provide better insight into the complex issues faced by the businesses today. To ensure that the research objectives are all-encompassing, the ICAI plans reach-out programs with reputed and interested institutions to encourage their working executives to engage themselves in research initiatives.

Technology

Technology drives the world and a large and critical institution such as the ICAI needs to keep abreast of the trends in technology. At present, the ICAI has an exhaustive website and engaging e-learning modules for members and students. In future, it would supplement these by developing a mobile app, an online store, publishing of e-books for members, engaging members through social media and the establishment of a knowledge gateway.

Conclusion

In conclusion, it is worth recollecting Robert Frost's famous poem :

*"The woods are lovely, dark, and deep,
But I have promises to keep,
And miles to go before I sleep..."*

Though the ICAI and its members have come a long way, it would still appear that the journey has just begun. ■