

## The Need to Restore Credibility

*It is with considerable trepidation that I have accepted the invitation of the ICAI President to write this article. It is over sixteen years since I retired from active practice and I am conscious of the fact that, in a sense, I am a back-number, not fully conversant with current developments in the profession. However, this could be an advantage as it enables me to take a dispassionate view of the current environment.*

**Read on ...**

In taking this view, I recall what Machiavelli said in the dedication to his famous book "The Prince". He said:

*"Nor do I hold with those who regard it as a presumption, if a man of low and humble condition dare to discuss and settle the concerns of princes; because, just as those who draw landscapes, place themselves below in the plain to contemplate the nature of the mountains and lofty places, and in order to contemplate*

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*the plains place themselves upon high mountains, even so to understand the nature of the people it needs to be a prince and to understand that of princes it needs to be of the people"*

The last few years have seen a steady decline in the credibility of company managements, the effectiveness of regulatory agencies and role of the professionals. That trust is gradually getting eroded has been often attributed to a number of factors, prominent among these being the failure of some large companies, the

exponential growth of NPAs of banks and the alleged complicity of high profile promoters of companies.

While the above may be the proximate causes of the erosion of credibility, I believe there are more fundamental reasons for the erosion of credibility which need to be examined. There are four major concerns which we may consider.

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of the capital markets and rising expectations from a wider and rapidly expanding population of stakeholders. This growing population is no longer content to accept accountability of management, solely on information contained in the financial statement and backed by auditors' opinion thereon. It demands a broader and deeper reporting format with greater transparency regarding the wider aspects of the company's functioning. This could include information as to how the company's human and intellectual capital is protected, how directors have performed in the discharge of their duties, the key factors which influence the company's performance and how they have been performed and how they are safeguarded for the future and many other matters.

Second, business structures in India are very complex with a majority of companies being

family owned and related party transactions being widely prevalent. Despite regulatory safeguards, there has not been sufficient transparency regarding these transactions and often, regulators, independent directors and those charged with fiduciary duty have been unable to confirm the existence and fairness of these arrangements or the ultimate ownership of entities with whom the company has trading relationships or in whom the company has investments.

Third, there is a fundamental change in the composition of the assets of companies. Whereas in the past the physical assets reflected the major value of the company, with the growth of the knowledge economy, the major value of a company is often reflected in its intangible assets such as brand, marketing networks, employee quality, intellectual property, customer base, etc. The financial statements do not adequately capture this value or reflect the increase or decrease which may have taken place in this value.

Finally, there is a perception that there is a conflict of interest in the different services accounting firms offer. With the growing complexity of businesses and the different skills the firms have acquired, often with the employment of other professionals, they are able to offer these services and business needs these services. While there are adequate regulatory safeguards to ensure that the independence of assurance

services is not compromised, this perception persists and needs to be addressed suitably.

Given this environment, it is important that the profession, whose very existence depends on its credibility, take urgent measures to restore and enhance the credibility of the profession. The following may be considered:

First, the Institute should consider the appointment of a High-Powered Committee to review the utility and relevance of the audit for companies as in the changed business conditions, there is a need to broaden the scope of corporate reporting, to create greater trust in the capital market and provide greater accountability to a wider section of stakeholders. The committee should be chaired by an independent person of eminence, preferably not a member of the profession and should include representatives of the key stakeholders including industry, regulators, analysts, rating agencies, academia and the profession. Its mandate should, inter alia, include the following:

- (a) What are the information needs of the stakeholders?
- (b) How can these needs be met?
- (c) How can financial and non-financial information be integrated and reported in a manner that assists decision making?
- (d) Who shall provide this information?
- (e) What should be the role of the profession within the



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limits imposed by what is needed and what is possible?

- (f) What are the regulatory changes needed?

Widening the responsibilities of the profession carries its own risks. However, not to do so may be worse and if this results in establishing adequate "safe harbour" rules for the profession's conduct, it will limit unwarranted expectations about the profession's responsibilities.

Second, the profession needs to close its ranks and provide a united front. While it is true that there are vast differences in the work and opportunities available to the larger firms and to the rest of the profession, this

is true of all countries and the inevitable result of globalisation. The solution lies in using the expertise of larger firms, to generally improve the quality of the profession as a whole, the goal being not the brilliance of a few but the competence of the many.

Third, it needs to be realised that Chartered Accountancy is not a function but it is a discipline. The members of the Institute are therefore engaged in a multiplicity of functions. In many fields, members have achieved great distinction but their achievements have not got due recognition. The Institute needs to give greater public recognition to this section of the membership and more importantly utilise their expertise to widen the composition of the technical committees of the Institute. It is for consideration whether it would not be desirable that in the technical committees, a majority of the membership should consist of members who are not members of the Council and Council members should largely devote their time to matters of policy, administration and regulation.

Finally, members of the profession have to constantly remember and publicly demonstrate that, irrespective of the function they perform, they are fundamentally professionals and that professionals have certain obligations which they must always fulfill. What this involves is well illustrated in a short piece written in 1957 by Judge Elbert P Tuttle Sr., which the late Mr. Nani Palkhivala had

preserved and which he had shared. The following extracts from this piece are relevant.

### Who is a Professional?

*The professional man, in essence, is one who provides service.*

*But the service he renders is something more than that of the labourer.*

*It is a service that wells up from the entire complex of his personality. True, some specialised and highly developed techniques may be included but their mode of expression is given its deepest meaning by the personality of the practitioner.*

*In a very real sense, his professional service cannot be separated from his personal being.*

*He has no goods to sell, no land to till. His only asset is himself.*

*It turns out there is no right price for service, for what is a share of a man worth? If he does not contain the quality of integrity, he is worthless. If he does, he is priceless. The value is either nothing or it is infinite.*

*.....Do not debase yourselves by hoarding your talents and knowledge, either among yourselves or in dealing with your clients, patients or flocks.*

*Rather be reckless and spendthrift, pouring out your talent to all whom it can be of service. ....*

*Certain it is that man must eat, so set what price you must on your service. But never confuse the performance which is great, with its compensation, be it money, power or fame, which is trivial"*

