

Current affairs noticeboard

Reforms to the auditing profession

Table 2

Committee Recommendations	Included in relevant section of <i>The Chartered Accountants (Amendment) Bill 2003 (CAAB)</i>
Quality Review Board to be established whose members would be drawn from business, academia and government to oversee quality of auditing (Recommendation 3.1).	Section 18
Auditor discipline Introduction of a prosecution directorate and procedures relating to dealing with complaints, hearing of complaints, publication of decisions and funding of disciplinary process were made (Recommendation 3.2).	Section 15
Government to consider whether to amend Partnership Act to allow professions such as auditing to operate as limited liability partnerships (Recommendation 5.7).	Not included

Similarly to Australia where the Financial Reporting Council was given the responsibility of overseeing the auditing profession, the Naresh Chandra Committee saw the need to establish an oversight body for auditors in India. A provision has been included in *The Chartered Accountants (Amendment) Bill, 2003* to establish a Quality Review Board. The board shall consist of a Chairman and 10 other members (section 18 of the CAAB). Five members of the board shall be nominated by the Council of the Institute of Chartered Accountants in India (ICAI) and 5 members nominated by the Government of India (section 18). The functions of the board are as follows:

- To fix standards for the services provided by the members of the Institute
- Review the quality of the services provided by members of the Institute that include audit services;
- To guide the members of the Institute to improve the quality of services provided (section 18 of CAAB)

Interestingly, the costs of the Board are to be borne by the ICAI (section 18)

There have been criticisms relating to the lack of reform in the procedures relating to the ICAI's disciplinary procedures. Mishra and Srivats (2003) noted that the

Joint Parliamentary Committee (JPC) that probed the recent stock market scam came down heavily on the Department of Affairs (DCA) for not taking any decision on the amendments for disciplinary matters proposed by ICAI two decades ago, except for seeking a fresh set of proposals from the institute in 1994 and 2001 (p.1).

In Australia, criticisms were made about the Institute of Chartered Accountants in Australia and CPA Australia disciplinary proceedings. See the article entitled *Who checks the checkers?* (Buffini, 2003, p.69) for details. In Australia we have two means of disciplining auditors. Each professional body has its own disciplinary bodies. Also, in Australia we require auditors to register with the government allowing the Company Auditors and Liquidators Board to also discipline auditors. In India, the discipline procedures are carried out by the ICAI. However, the procedures adopted by the ICAI are governed by The Chartered Accountants Bill. Government thus determines the procedures adopted.

The Naresh Chandra Committee recommendations relating to disciplinary proceedings relating to the ICAI in the main were followed by the government when drafting *The Chartered Accountants Amendment Bill, 2003*. An analysis of section 15 of *The Chartered Accountants (Amendment) Bill, 2003* indicates that the discipline procedures included in the Bill give the ICAI far greater powers than possessed by Australian accounting bodies when disciplining members. For example, note the following.

- The council of the ICAI is to employ a prosecution director and other staff to make any enquiries resulting from complaints received.
- The Council, the Disciplinary Committee and Prosecution Director have the powers of a Civil Court that include summoning and enforcing the attendance of any person and examining him under oath

The government did not accept the Naresh Chandra Committee suggestion for the adoption of limited liability partnerships (ICAI, 2004, p.15). However, as auditors in many other countries have limited liability, the issue of limited liability is part of a greater argument that concerns the ability of Indian chartered accountants to operate on a level playing field with overseas competition. As many Indian auditing firms are small they do not have the resources to compete with the international auditing firms. The Naresh Chandra Committee recommended that Indian accounting firms should be able to consolidate and grow to enable them to compete with international firms, especially in the area of non-audit services (Recommendation 5.7).

References

Buffini Fiona, 2003, 'Who checks the checkers?', *The Australian Financial Review*, 14 May, p.69

Ministry of Company Affairs, 2003, *The Chartered Accountants (Amendment) Bill 2003*, December, dca.nic.in/welcome_acts_bills_2003.htm

Mishra Richa and Srivats K R., 2003, 'Rotation of audit firms on hold for now', *The Hindu Business Line: Internet Edition*, May 11, www.blonnet.com.