

ON NOT BUILDING A TOP GLOBAL INDIAN AUDIT FIRM

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Several thought provoking facts and figures have been presented recently in various forums on the captioned subject. However, some key perspective notes need to be added in, to make clear the present plight of IAF (Indian Audit firms). These are as follows—

THE VISION

The Vision presented by our Hon. PM Shri Narendra Modi on the CA Day on 1st July 2017 is path-breaking in many ways. **For the first time, in India, the recognition has come to the fact that the large firms in the country's audit practice are not Indian Firms. While it is an open secret, the fact that it has been woven into a distinctive vision for Indian Audit Firms, and that too by the highest office, is what makes it path-breaking.** There need be absolutely no confusion going forward that Indian Audit Firms have fallen far far behind. This is the obverse of the vision statement pronounced by our Hon PM. This fact simply cannot be stressed enough. It is the basis for the “wake up call”. It is not that India does not have audit and auditors. It is just that we don't have Indian Audit firms providing auditing at the forefront – both domestically and globally – an unhealthy change that happened over the last two decades. **What makes it all the more poignant and purposeful, is that such clarity and such vision did not come up from within the apex professional body of the country which found itself at the receiving end, instead of being in a position of claiming credit of having stood up for and presented a vision for Indian Firms versus Multinational Audit Firms (MAF).**

THE STRUCTURE

A comparative review of Firms in India and the UK or the USA is certainly required and has also been presented. However, this “landscape” requires a panorama photo to accompany it and complete the beautiful picture. Taking the population as a basis, India is truly far behind the West – absolute numbers are of limited value when the denominators are starkly different. The structure of the profession also is totally different in India. **Non-regulated entities of the MAF operating in India dominate the scene. This is unlike any other country in the world.**

ICAI overseas only a small fraction of the head-count when one takes into account this factor. This brings in rampant non-regulation. It brings in a wide spread “non-level playing field” which is the term utilized in the two investigation reports approved by the Central Council of ICAI in 2003 and 2011 on the operations of MAF in India. And to say the least, all this has resulted into an attrition of goodwill and image for the professional bodies, so much so that Government has just finalized plans to create a new regulatory body which will reduce the present professional bodies to educational institutions.

BENCHMARKING

Coming now to the capture of Top 100 or Top 500 companies etc by the MAF, the numbers are very misleading if one does the calculations based on the number of entities. **A credible analysis shows that the audit revenue of the MAF crosses Rs. 5,000 crores while the Top 20 IAF taken together stand at less than Rs. 200 Crores, pre-rotation. That is less than 4% market share.** The most important fact however is missed when we only compare numbers, and that is the reality that in the West, the coverage by the MAF is a coverage by their own Western-headquartered Firms. While in India, the financial sector suffers a systemic risk since it is foreign firms that have the maximum majority of workshare. Apart from this systemic risk, it is a serious loss of space to generations of young future Indian CAs who find it impossible to enter into “own practice” as it happened for the first 50 years after our independence, before the MAF took over. Another huge issue of concern, is that when India becomes a global economic power 10 years hence, India will not have any global presence in auditing. These truly are our benchmarks. The post audit rotation numbers would be even more dismal – the present market share maybe less than 1 percent. Sometimes, in arguments driven by statistics, the baby does get swept out with the bathwater.

HISTORY

When we talk of the history of the MAF in India, we should not forget to bring up an important fact pointed out by the respected senior member of our profession,

Shri S. Gurumurthy. (Books Unsquared, August 2017, Outlook Magazine, <https://www.outlookindia.com/magazine/story/the-books-unsquared/299171>). He observed that the RBI is the “original culprit” in allowing FDI into audit through automatic permissions in the consulting route by the MAF, which is not permitted. His prophetic predictions of the detriment to be caused to India through his White Paper of 2001 have sadly come to pass a dozen years later – be it the loss of our profession’s stature, or the many scams. Our Hon PM has said recently that this is a sad thing. This is also confirmed by ICAI in numerous adverse observations in the two Reports against the MAF operations in India. **The gains made by the MAF are therefore illegally derived by acquiring as many as the Top 50 IAF over the last 20 years and steadily increasing market share through various means thereafter, and then to add fuel to the fire, using audit rotation to squeeze out IAF by various means, underpricing of services being one such. The errors of Brazil, Argentina, Korea and elsewhere, have got repeated in India - the practice base of local professional firms has been seriously negated.**

NON-ISSUES

The other issues on management, technology, thought-leadership and ideology are not relevant at this point. They can be caught up with fairly, for sure. When there is no business left in corporate India for audit by IAF, they are just niceties for the evening cocktail circuit. **China has a vision of making its Top 50 CPA firms global and foreign FDI and firms are now banned in auditing of Chinese companies.**

CONCLUSION

The horse has bolted – if you care to notice. Despite this, the time to act is now. **The good news is that research in 2015 by IIM-A concludes that the advantage of the MAF is only a “market perception” and there is no superiority in the quality of the financial statements audited by MAF. Our policy maker’s vision is clear. India has come to its ‘patanjali’ moment, in terms of corporate consumers’ shift for auditing services to Indian audit firms. The process of making a global Indian audit firm has begun. ■**

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