



ON REPEATING THE MISTAKES OF WESTERN AUDITING:

White Paper

- Raghu Aiyar, March 2018

New Structure for Audit Profession in India



KS AIYAR
ALLIANCE



Kautilya on foresight, oversight, regulations, ethics and systemic risk

Kautilya on the Link between Moral Decay and Systemic Risk:

Kautilya was the first economist, who understood the link between ethical conduct and prosperity. He believed that the survival as well as prosperity of a kingdom depended on the ethical conduct of both the ruler and public. He surmised, “For the world, when maintained in accordance with the Vedas, will ever prosper and not perish. Therefore, the king shall never allow the people to swerve from their dharma.” He wrote, “A king who flouts the teachings of the Dharamshastras and The Arthashastra, ruins the kingdom by his own injustice. He believed that ethical decision-makers would not fail in their duties and would not promote their private interests at the expense of public interest. Similarly, he believed that “greed clouds the mind”, implying that a greedy person could not figure out the consequences of his/her actions. According to him, moral hazard problem and greed would be non-existent in an ethical society. In fact, Kautilya’s predecessors had emphasized the foundational role of dharma (ethics). For example, according to Atharva Veda (12-1-17), “This World is Upheld by Dharma.” Kautilya wholeheartedly accepted and promoted the secular virtues (dharmic duties). He wrote, “Duties common to all: Ahimsa [abstaining from injury to all living creatures]; satyam [truthfulness]; cleanliness; freedom from malice; compassion and tolerance.”

Balbir S. Sihag

University of Massachusetts Lowell, Lowell, USA

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10th March 2018

From The President's Desk

The K S Aiyar Alliance, (KSAA) is pleased to present a White Paper entitled "On Repeating the Mistakes of Western Auditing : New Structure for the Audit Profession in India" from its Chairman, Mr. Raghu Aiyar, for a wider discussion and opinion enabler for the audit profession in India. This is KSAA's endeavor, in the service of the audit fraternity.

We are thankful to the senior contributors for their Foreword, and for their thoughtful, insightful comments and the encouragement provided to the approach to a new structure to the audit profession presented by the author in this White Paper.

We are happy to circulate the same so as to initiate a dialogue and discussion on the subject matter, and we hope to see that the suggestions find the light of the day.

Kartik Pandit

President

The KS Aiyar Alliance

Release of White Paper

At the Soft Launch of The KS Aiyar Alliance.

At Suryavanshi Sabhagriha, Dadar, Mumbai, On, Saturday 10th March 2018

As you are aware the Hon Supreme Court of India passed an Order on 23 February, 2018 in respect of the case against Multinational Audit Firms. This Order has far reaching implications for all of us even though it is directed at the Multinational Audit Firms (MAF). This is for the simple reason that the MAF have a 95+ percent of market share in auditing and anything that affects them, also affects us, the Indian Audit Firms.

It is important to note that the SC has pierced the corporate veil of the BIG N firms operating in India.

The following Directions were issued by the Hon SC of India:

QUOTE:

- i) Union of India may constitute a three member Committee of experts within 2 months and submit a report within 3 months thereafter after looking into the following questions:
 - a) Whether and to what extent the statutory framework requires to be revisited.
 - b) Consider steps for effective enforcement of the provisions of the FDI and FEMA and identify the remedial measure which may then be considered by appropriate authorities.
- ii) The ED and the ICAI may complete the pending investigation within 3 months time.

UNQUOTE

IN view of this, it is in the fitness that The KS Aiyar Alliance, in support of the Hon Supreme Court Order, offer our thoughts on new Framework. Accordingly, we have developed a White Paper, which we are happy to Release today, in the presence, our esteemed guests. **This is entitled: ON REPEATING THE MISTAKES OF WESTERN AUDITING: NEW STRUCTURE FOR AUDIT PROFESSION IN INDIA.**

I invite to the dais a few dignitaries for release of this WHITE PAPER.



Standing from left to right:

Ramesh Bhatt – President, Taxation, Reliance Industries Ltd

Ramnarayan Sriram – Chief Guest, Country Head, Asia Pacific, Financial Markets,
Thomson Reuters

Himanshu Kaji – Group Chief Operating Officer and Director, Edelweiss Group

Humayun DHANRAJGIR - Senior Independent Director, formerly, CEO and MD Kodak
India, MD Lupin, VCMD, Glaxo India,

Raghu Aiyar – CEO and Senior Partner, KS Aiyar & Co, Chairman, the KS Aiyar Alliance,

Santanu Ghosh – Chairman, Board of Governors, KS Aiyar & Co, Managing Partner,
Kolkata Office, Director of the KS Aiyar Alliance

Kartik Pandit –President of the The KS Aiyar Alliance, Partner KS Aiyar & Co.

S. Venkatachalam – Chairman of Oracle India, former Director and Chairman of the Audit
Committee, State Bank of India, Formerly Director Finance, Citibank.

S Neelakantan –Managing Partner of CNGSN LLP Chartered Accountants, Chennai, KSAA
Alliance Member, Tamil Nadu

Karan Gupta – Partner, SP Chopra & Co, Chartered Accountants, Delhi, KSAA Alliance
Member, Delhi.

Ankit Ajmera – Senior Representative of Dharmesh Parikh & Co Chartered Accountants,
Ahmedabad, KSAA Alliance Member, Gujarat.

Thank you.

Raghu Aiyar



Foreword

Raman H. Jokhakar

The Chartered Accountancy profession, is one of the few noble professions. Its roots find source and are nurtured by the very essence of Indian culture: upholding of Dharma - the “right” the “सम्यक” . CAs have earned their respect and trust for their work: of confirming and guarding what is true and fair and qualifying and flagging off what is not true and fair.

The recent spotlight on the profession has raised a question: how do we relocate the profession in terms of range of expectations from varied stakeholders in a complex scenario.

The paper raises issues that are fundamental and many of them not new. These were flagged before and deliberated upon but missed action from the government. The issue of unhealthy and illegal ‘networks’ of multi national accounting firms operating in India in violation of FDI norms is now even accepted by the apex court. The issue of audit rotation, which has proved to be lacking whoever implemented, has found favour of Indian regulators through a hastily promulgated Act of 2013. The author has proposed an alternative to audit rotation where independence and familiarity can coexist, with due safeguards.

The following document by Shri Raghu Aiyar, a third generation CA, and leader of a firm established over 120 years ago, calls for giving our profession a fresh look. A thorough Punaravlokana (review - पुनरावलोकन) and Mulyankan (evaluation - मूल्यांकन) of the interconnected issues is both urgent and necessary. The author has proposed a wholistic rather than a piecemeal, reactive and linear approach.

The paper calls for consideration of many fundamental issues separately and collectively so as to lead us to a new model of audit profession. A model that will enhance its values and efficacy. Audit, which is akin to a judicial service, unlike any other service should be modelled where Indian accountancy profession is by Indians, for Indians and of Indians. This paper calls for an alternative, where India can conceive its own model rather than blindly emulate the west.

*Raman H. Jokhakar, FCA is a partner in BD Jokhakar & Co,
Chartered Accountants, Mumbai and was the President
of the Bombay Chartered Accountants Society in 2015-16*



Malini V Shankar

The past decade has seen several instances which have focussed attention on the auditing profession. The lapse in professional scrutiny on the part of PwC in the Sathyam Infotech case is still etched in memory. The recent case of Punjab National Bank has only intensified the need for structural reforms in the industry.

The "thought paper" introduced by the author is a timely intervention on the part of a Chartered Accountant to "empower" the professional through restoration of values and ethics in their dealings. His efforts need to be appreciated and supported. Kudos to that!



Alliance of IAFs
Alliance by IAFs
Alliance for IAFs

1st Indian HQ Alliance Formed Specifically
With the Goal of Going Global

Borrowed from the famous speech by President Abraham Lincoln, in 1863, a statement on American National purpose

KS AIYAR
ALLIANCE

It is indeed a commendable idea to break the oligarchy that prevails in the industry. By proposing the facilitation of a large number of medium home grown firms the author seeks the enhancement of competition and capability, and thereby promote the cause of integrity.

The author has made several recommendations addressing structural reforms. While some of them - such as revision in the policy of rotating auditors in firms, and commercially soliciting clients through advertisements - might warrant a relook, there is merit in most of the suggestions.

One needs to bear in mind that the provisions of the WTO Agreement on Services does not permit differential treatment to local and foreign / multinational firms. Moreover, while auditors do play the role of judges in financial and accounting matters, the latter distinguish themselves by being statutory government authorities.

*Dr. Malini V Shankar, is the Director General of Shipping – Ministry of Shipping,
& Special Secretary, Govt Of India. Malini Shankar holds a
PhD from IIT Madras in Public Policy (Institutional Economics),
and a Diplome in International Economics from
l'Institut International d'Administration Publique, Paris, France*

Kartik Pandit

The two study reports of the ICAI on the operation of multinational audit firms, and now the Order of the Supreme Court is bound to create a tremendous turmoil within the CA faculty, the ICAI, and the public at large. New expectations and quick corrections, unsettling the past would be the immediate need of the hour.

This White Paper with suggestions to all the affected parties, including self-discipline by Chartered Accountants and their firms, is therefore timely and has the potential to help shape the destiny of the profession and its members as it embarks a reality check and far reaching suggestions, many of them warranting immediate implementation. The White Paper having a holistic view of all affected parties and also suggesting a road map to help Indian Audit Firms to go global will surely find tremendous acceptance.



THE FOUNDATION OF OUR ALLIANCE 

- Cooperation between member firms
- Protects the identity of each member
- Meet the market expectation of going global
- Profile of IAFs in the country coming together
 - long standing
 - high standards
 - clear ethics
- The global superstructure will rest on this solid foundation
- Alliance will remain always 'not for profit'

March 18 K S AIYAR ALLIANCE - LAUNCH 4

I hope the powers that be, will find this very helpful and serve as a reference point of solutions out of the current situation.

*Kartik Pandit, FCA, is the President,
The K S Aiyar Alliance Global, he is Partner, KS Aiyar & Co,
Chartered Accountants, Mumbai, and earlier was Managing Director, FedEx Egypt, and Dy. COO,
BlueDart Aviation Ltd*

Karen Kehl-Rose

The thought-provoking White Paper ON REPEATING THE MISTAKES OF WESTERN AUDITING by Raghu Aiyar lays the groundwork for an open and frank conversation on the many issues facing the accounting and auditing profession in India today.

Mr. Aiyar focuses on a number of key issues including the independence of networks, ethics, audit firm rotation, advertising, mandatory joint audits and national sovereignty. His commentary includes a review of the current status and recommendations for moving forward.

*Ms. Karen Kehl-Rose is the President of LEA Global
the second largest global accounting association, for two decades,
prior to which she was Vice President of the Illinois CPA Society for seven years*



COMMITMENT TO A GAME PLAN



- Regain and correct the “market perception” indicated in research report of IIM-A, with corporate India, of dependence on MAF
- One firm per location is our immediate goal: Pan-India presence - 29 States , 7 UT
- Build a critical mass of headcount of 4000 – at 100 heads per location x 30+ locations
- Will work to delivery a unified and best in class service capability

March 18

K S AIYAR ALLAINCE - LAUNCH 5

Hon. Justice (Retd.) TNC Rangarajan

Sri Raghu Aiyar reminds us that Auditing is a trusted profession that maintains the probity of business. In his thoughtful paper he exhorts us to follow some principles, to stop making it a business with its own pitfalls.

Hon. Justice (Retd.) TNC Rangarajan was a Judge of the High Courts of Andhra Pradesh and Madras for 5 years until 1998, and prior to that was a Judicial Member of the Income Tax Appellate Tribunal for 20 years. Presently, he is a Senior Arbitrator.

OUR PROCESS BACKBONE



- Fundamental Change we visualise : Branding of our Processes vs Branding of the Firms
- Our Branded Tools and IT processes
- Supported by uniform training, ensuring uniform client experience
- Member Firms will be networked on our best practices
- Customized application by each member firm
- Ease of scalability of resources from member firms
- Geographical outreach - capability for Pan India delivery and then Global delivery

March 18

K S AIYAR ALLAINCE - LAUNCH 6



Author's Preface

This thought paper is presented based on the professional experience in auditing of nearly 4 decades. In this period we have witnessed the rise and fall of the Indian audit profession. There was a time when there were no multinational audit firms and Indian firms were headed by stalwarts who were highly respected and held the flag high for 50 years post independence. Companies took pride in their Indian auditors. Scams were few and far between, heads were held high. The audit profession still was amongst the attractive career choices for a younger generation. The profession was still a profession and a noble profession at that. The Institute (ICAI) had visionary leaders with impeccable integrity.

The rise of the multinational audit firms changed all this beginning in the late-nineties. This was prophetically predicted by the 2001 White Paper of which the esteemed Mr S. Gurumurthy, FCA, was an author. Perception was more important than content. National interest was drained out of the system in favour of commercialized foreign branding. Youngsters did not turn naturally to the profession as there is no scope for own practice – if at all it is seen as a stepping stone to the career in Industry, with a stamp of a foreign name on their CV. Scams were rampant. Employees and partners of the foreign firms themselves confess that they hate it – perhaps they are there without a choice – and early exit to another career is a norm. Companies feel helpless as the market perception chains them to appointing multinational audit firms, and Indian firms have lost market share being down to less than two or three percent of the national audit fees pie and there is loss of tradition and “parampara” that was a trademark of each Indian professional firm. The Institute has almost lost its vision, focus and vitality having fallen victim to electoral politics. To cap it all, the Institute's Central Council itself approved two studies condemning multinational audit firms in 2003 and 2011, while not taking any action, leading to a loss of confidence, and an adverse Supreme Court order against it.

Against this backdrop, the Top20 Indian Audit Firms wrote to the Hon'ble PM Shri Narendra Modi on 19 July 2016 drawing attention to the woes of the profession. The letter exposed the fact that it would lead to the unthinkable consequence of India not having its own global audit firm when in a decade, the country would be in the Top #3 as a global economy. This missive was well-received and recognized by the Hon'ble Prime Minister who in July 2017 picked up on this potentially embarrassing consequence highlighted to him, and went on to present a nationalistic vision to the country's professionals and industry, saying that it is “sad” that none of the multinational audit firms are Indian, and by 2022 he would like to see four global Indian firms out of a global eight. The serious issues faced by audit firms of illegality and mis-governance in the profession created by foreign firms hoodwinking the country and circumventing its laws, and subject to investigation and report by the MCA's Meenakshi Datta Ghosh High Level Committee in 2017, were confirmed by the Supreme Court's Order in February 2018.



It is now imperative that India must re-invent the structure of the profession. India must strengthen its domestic audit firm. India must take them global. We have seen where India was taken, by repeating the mistakes of the West, in terms of the structure for the profession. This structure has in fact become a liability even to the West in their own jurisdiction, and sadly they are unable to wriggle out of it. India now has the opportunity to approach the subject with a bold and fresh thought.

A new structure is presented in the accompanying White Paper.

Vande Mataram! Jai Hind!

Raghu Aiyar

28th February, 2018

On Repeating the Mistakes Of Western Auditing:

New Structure for Audit Profession in India ©

By Raghu Aiyar

[The arrangement of the text in this White Paper is as follows

A. Topic Head

1. New Structure

1.1 Comments]

A. THE FIRMS

1. Audit Firms should be small. No more than 25 partners. EF Schumacher way back in 1973 wrote the epic “Small is Beautiful”. He brought out how this would empower people more, in contrast with phrases such as "bigger is better". Isn't this exactly what an auditor needs to do his job?

1.1. Complex calculations of whether the fee from an audit client exceeds a threshold, and similar mechanics, have failed us. Audit failures continue like nobody's business. The only thing that will stand by us is auditor empowerment – empowerment to act, and act per conscience, secure in the structure of the professional ecosystem.

1.2. Audit is a quasi-judicial function. There are laws and standards that apply, and like a judge, an auditor opines in his “order” whether the financial statements comply with these laws or they do not. Forming mammoth business like entities creates an artificial impression of an impersonal brand that somehow carries out this function, when in fact a conscience function entailed in a quasi-judicial service cannot be anything but individual.

“.. a conscience function entailed in a quasi-judicial service cannot be anything but individual.”

1.3. Besides bigger commercial structures bring in the complex cross-pressures antithetical to a quasi-judicial function, that one is all too familiar with.

2. Sharing with max 25 percent partners, who are not CAs is allowed and comes in as an additional quota for number of partners.

2.1. These partners cannot control the firm – it is only for service-line purposes. An additional 5 partners over the 20 partner limit would give flexibility



B. ADVERTISEMENT , PERCEPTION MANAGEMENT

3. Firms should be allowed to advertise without client names.

3.1. This can be called a no-brainer. If a client can fire an auditor, how will the auditor survive if he does not have the right to inform potential clients of his presence? Ofcourse the exercise has to be restrained, not brazen. An auditor does not enjoy an automatic stream of cases like a judge. Old-fashioned rules are repugnant to the facts.

“.. how will the auditor survive if he does not have the right to inform potential clients of his presence?”

4. Contingency fees and percentage fees never allowed.

4.1. Can a judge take a fee, which varies with the Order he makes? The answer is so obvious.

5. No Foreign (non-citizen) CAs and No Non-Members of ICAI should be allowed to practice statutory audit in India.

5.1. For the same reasons as not allowing FDI.

6. Paying of any referral fees, even a percentage, is permitted.

6.1. Artificiality must be avoided.

7. Market Perception is nothing - Integrity is everything. This argument has been turned turtle by the Western model of Big N. It is creating audit failure as a direct consequence and encouraging CFO and audit committees to hide behind mere perceptions

“Market Perception is nothing - Integrity is everything. ”

7.1. Perceptions are created by jazzy presentation, and hype, with little content.

7.2. The IIM-A report is a true eye-opener (see attached link to a column penned on this subject). Please know and understand the outcome of this fantastic Research Report.

“The IIM-A report is a true eye-opener.”



C. FOUR EYES PRINCIPLES

8. Joint audit mandatory for all company with turnover beyond 3000 cr.

8.1. The four eyes principle is proven. We see that in France, there was an improvement in governance after it was made mandatory (until recently when the Big N Firms managed to break this rule also to their advantage).

“The four eyes principle is proven.”

9. At least 20 percent of every large audit in terms of volume of work, rotating in scope, should be performed by branch auditors – viz. for companies with turnover more than Rs 3000 cr or Bank borrowing more than 1000 cr. This is required even when there are joint auditors.

9.1. Nothing works better than the four eyes principle enhanced by a natural collaboration of independent firms doing a low level check – that really is where things go wrong often.

9.2. Besides, it has a salutary outcome of being an additional method of de-concentration in the audit industry.

D. ANTI-TRUST

10. Maximum number of audits cap is a must - 20 per partner (per present Companies Act). There must be a widely dissipated audit firm population.

“There must be a widely dissipated audit firm population.”

10.1. Again the proven justice-system parallel is to have broad-based empowered courts. Suggesting that a few will suffice when India becomes a Top #3 economy one decade hence, is regressive.

11. Maximum number of audits more than Rs 5000 Crore turnover per firm is 5 per firm. More than Rs 3000 Crore is 10. There is a need to have de-concentration and higher level of partner attention to audit practice.

11.1. The micro-economic financial balance within a Firm will be maintained when the number of partners, number of audits, and the work sharing happens in a balanced way. The parameters suggested here in, on this front, is a time-tested one.

11.2. The Western / Big N format of “partners” being marketing-angels is like asking judges in court to mind only keeping good relations with a litigant, and then driving that by money-targets. It breeds moral corruption to convert a quasi-judicial process into a competitive market-run.

11.3. Everyone agrees to something, especially after being serially scammed, viz. auditing must be restored to being a noble profession and not a “business”.

“..auditing must be restored to being a noble profession and not a “business”.”

E. NATIONAL SOVERIGNTY

12. No international Networks (per IASB definition) permitted.

12.1. There are only two possibilities w r t “networks” – yes or no. One cannot find a way to ban only the top 6 without much complication, unless India was China, which has done exactly that. The better option given the supreme national interest, that Indian Audit Firms need to develop, is to say “no” to all Networks, in all its ramifications. An unfair advantage mainly to the Big 6 Networks (and some 10 others) has unfortunately denied the benefit to 300 other firms.

12.2. It’s hardly surprising that networks have turned out to be epiphanies of hypocrisy. Each scam causes the Network concerned to drop the fraudulent firm like a hot-potato when the inevitable super-fraud happens claiming they are separate and independent firms, and recruit a fresh firm (usually with some earlier partners) in that domain, while the rest of the time they bandy their lies to a gullible audience of being one seamless-global-firm.

12.3. The western so-called global audit firms are the convenient creators, and the dubious destroyers, of the IASB definition of a “network”. Without networks the multinational audit firms threaten to qualify their audit reports saying they cannot rely on anyone else. Nothing could be more false, but to the paragons of virtue that the Networks are, this never occurs to them.

“.. multinational audit firms threaten to qualify their audit reports saying they cannot rely on anyone else.”

13. No FDI permitted

13.1. “They” have devastated our level playing field. Two ICAI Reports said so and one White Paper way back in 2001. Don’t do it all over again! Allowing FDI for all (the other way) is simply not an answer since a quasi judicial service cannot and should not be foreign-funded, or indeed be funded at all, since there has to be no route to compromise of independence.

13.2. FDI in Audit gets at the root of a country’s sovereignty. FDI gives ownership and control. Do we want the CIA to continue sitting (they think unnoticed) inside our audit firms? Once the firm is under foreign control, then they can and do use our laws that

allow our auditors to gain legal access to corporate secrets (including strategic PSU, Govt companies, and large private companies). It is against India's national interest

“FDI in Audit gets at the root of a country's sovereignty.”

looking to the nature of the profession.

14. No control over Firm or partners from outside the entity of the audit firm is permitted - by any arrangement, formal or informal

14.1. We have seen it happen in case of Multinational Audit Firms operating in India.

F. THE APEX

15. ICAI's election based functioning should be ended forthwith. It should be professionally managed (“corporatized”) on the lines of our stock exchanges. President and council members should be by nomination from illustrious members in practice.

15.1. The Council's role will be purely advisory and visionary. Executive authority to non-accountable, short-term elected officials has resulted in unfortunate, well-documented misuse of office for personal profit, and none have been brought to book as yet.

G. AUDITOR PRIVILEGES

16. Substantial penalty must be kept for complaints against members which are prima facie without merit, as these malicious and negative activities have disturbing consequences on credibility of professionals.

16.1. The complaints process has become a forum for settling scores between third parties, and also for corrupt and / or inept government officers to use on a trigger-happy basis.

“..complaints process has become a forum for settling scores”

16.2. There must be a prima facie rejection process as has been there. And it must be conducted by practicing auditors who understand the reality of the professional practice, irrespective of the forum under which it is undertaken.

17. Privilege against complaints and against being sued, for auditors, are on par with judges, so they can confidently deliver adverse opinions.

17.1. This must extend to not allowing auditor-removal after the year of qualification.

“.. not allowing auditor-removal after the year of qualification.”

17.2. The client is not a customer who can go into redressal mode – he is the subject of a judgment. If he is not happy with it, let there be provisions for a re-audit by another firm. Nobody can sue an auditor for giving his opinion, which is as central to the job as a judge giving an order. Opinions can be flawed. That is the reality of the art of judgment. It’s ridiculous to think of a divorce of the art from its art form!

H. ON ROTATION

18. No rotation by rule of law. Familiarity does not breed contempt. On the contrary it is repeatedly shown that lack of familiarity actively demotes audit quality.

18.1. The age-old concept of my auditor being like my family doctor must be reinstated. No better treatment is possible than by a doctor who knows the patient. The threat of being in nexus is removed by joint / branch audits. If an auditor is incompetent he can always be removed since there is no guarantee of tenor. Just as when a judge always “sides” with a litigant who is on the right side of the law is still independent, an auditor by reason of his familiarity still remains very independent even though supporting of compliant methods of the auditee. In fact, independent auditing requires familiarity. Independent audit without familiarity is a myth. It’s like asking a doctor to be not-familiar with his diseased-patient.

“Independent audit without familiarity is a myth.”

I. SEPARATION OF REMUNERATION FROM CLIENT

19. Return to audit as a noble profession requires ending undercutting - time at cost plus 30 percent margin should be made minimal fee - shortage being claimed from a central pool - with standard fee paid by the company thru a central pool / clearing house as a percentage of turnover on a graded scale. All companies contribute to the central pool on a fixed basis so the risk of an auditor over stepping his time cost budget is absorbed by the pool-platform. MCA closes the viability gap funding.

“..standard audit fee paid by the company thru a central pool / clearing house”

19.1. The objective is no restriction on audit time so if there is urgency of abnormal circumstances an auditor can extend his scope without damage to his profitability and claim it.



19.2. The negative correlation of doing extra work for a fixed fee when client is in a mess (ethically, or systems-wise) should be ended. It is as unreasonable and probably as big a silent killer of audit quality as can be.

19.3. The recent problems of huge disparity in salaries offered by multinational audit firms who are cornering talent should not happen as it is extremely damaging for other firms' audit quality, and has an overall systemic negative effect. This will happen if this approach is adopted.

J. WORK IN PEACE

20. A key to better financial statements is to allow auditors and accountants to work with a work-life balance. This is not the case today. A healthy company accountant and a healthy auditor provide enough bandwidth for good judgment. No one in the world can work constructively if there is not enough time. Reporting deadlines must be relaxed by 100 percent. Apart from the aforesaid relaxation, a good rule is as follows.

20.1. The auditors' group for any entity must decide the board meeting date for results (quarterly and annual) collectively for each auditee, and communicate it to the Board - and it should be done without any time- pressure from the management or promoters.

20.2. Good governance starts with good fieldwork - in accounting and in auditing.

“Good governance starts with good fieldwork”

K. PUNISHMENTS NEEDED

21. Restrictive covenants - should be criminalized - especially the silent killer of implicit covenants arising from shareholding / control / and global dictates which are not in writing.

21.1. Hard punishment is the best and perhaps the only deterrent. It will end immediately.

22. Global database storing / sharing “client-privileged information” with non-auditor network or other affiliates bandied as “industry specialization”, or involvement in past scams per ICAI Studies / SC Order, should be criminally punishable.

22.1. Only the appointed audit firm(s) should have access per rules for work papers, with no sharing whatsoever.

22.2. If any firm doesn't have the requisite experience they should utilize resources, or consult an auditor from any firm that does, and take an opinion. There should be no bar on an auditor using extra / additional audit resources from any quarter.

22.3. All Indian member firms of the Big N Networks who were involved in the FDI or other scams identified in the two ICAI Reports of 2003 and 2011 on multinational audit firms, through their international networks or their related Indian entities, should be struck off the roster permanently. We cannot have scamster-firms indicted by the Supreme Court providing auditing services in the years to come. Not doing this sets a very bad precedent, and destroys the morale of those who are compliant, encouraging the acrid-atmosphere of doing-wrong and getting away scot-free.

“.. encouraging the acrid-atmosphere of doing-wrong and getting away scot-free.”

23. In the grand scheme of things the country will be then bejeweled with say 300 audit Firms who are incorruptible and stand for the high-values of their partners.

“.. bejeweled with say 300 audit Firms who are incorruptible and stand for the high-values of their partners.”

23.1. Audit firms will necessarily be SME, and there will be no hegemony which facilitates the age-old saying “power corrupts and absolute power corrupts absolutely”.

L. GOING GLOBAL

24. Global Indian Firms: the answer is that the way to go is thru the “alliance” route only rather than the “network” route. The audit industry must become a thriving and prosperous professional arena once again – not just for a few larger firms but also on a wide basis.

24.1. Networks have proven themselves to be hypocritical as already explained somewhere above.

About KSAA Global

The KS Aiyar Alliance is a start-up platform of like-minded senior and time-tested firms with outstanding reputation and highly respected presence in India. The member firms of KSAA are leaders in their markets. The Alliance intends to have pan-India member firms which no other firms (including Multinational Audit Firms) possess. This distinguishes KSAA as a unique and strong united platform which combines and creates a capability to service clients of all sizes, big and small and the very large.



KS AIYAR ALLIANCE

KSAA will be positioning itself to create niche service offerings with Indian expertise from a cross-section of industries from across the country. KSAA will work to empower its member firms to reposition itself with its clients, with pooled enhanced capabilities, adopting best practices, coupled with adequate research, size of personnel, with training. KSAA is a trend-setter in seeking to end the dependence, and the systemic-risk, in the audit profession in India - resulting from the dominance of multinational audit firms.

Each member firm of KSAA with a long standing of repute and goodwill has come together in this alliance to form a unified and a sizeable source of resources constituted from its individual member entities. This includes the First Firm of India whose Founder Kalyana Subramani Aiyar is recognized in the country as the Father of the Accounting Profession in India. This alliance carries his educational and commercial vision to a grand and global scale.



About The Author

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