

ACCOUNTING IN INDIA: A PROFESSION GAINING DYNAMIC PROPORTIONS

Accounting firms in India have been forced to deal with a variety of issues over the last couple of years, with both positive and negative developments impacting the profession. *Paul Golden reports*

Analysis of the Indian Accounting Standards (Ind AS) published by the Institute of Chartered Accountants of India (ICAI) in June 2018 states that its implementation has provided better insights into the financial affairs of the companies, and that Ind AS-based financial statements reflect the underlying economics of transactions and events in a transparent and unbiased manner.

According to the ICAI, the standard has also improved the comparability and benchmarking of the financials of Indian companies, improving the accessibility of global capital markets.

Vaibhav Manek, business advisory services partner at Allinial Global partner firm KNAV, suggests it would be an error to view the introduction of Ind-AS as a mere accounting change, since it has made reporting entities embrace the mantra of ‘substance over form’ in both letter and spirit. “Accounting has thus assumed dynamic proportions, and transcended from a support function to a decision-enabling function,” he says.

He describes direct taxation amendments, through provisions pertaining to place of effective management, base erosion and profit shifting, equalisation levy and various changes in international taxation as both reformatory and corrective. “The Insolvency and Bankruptcy Code has codified and integrated various legislations pertaining to insolvency with the aim of making insolvency provisions more definite,” adds Manek. “The industry is slowly but surely embracing this change.”

Pritesh Amin, director of audit and assurance at BKR International member firm KC Mehta & Co., notes that the code was introduced to streamline the resolution and

liquidation process and to reduce the time taken to close the matters.

“More than 1,000 companies are brought under the insolvency process, and many matters have been resolved. Though the results in terms of the time taken to close matters are not in line with the expected outcomes, this is a significant improvement as compared to the earlier process. This has bred a new professional services category and professionals.”

IMPORTANT CHANGES

Amin observes that the Securities and Exchange Board of India has introduced several important changes in the listing obligations and regulations on disclosure requirements. These include revisions covering areas such as related party transactions, independent directors, board meetings, accounts, auditors and the roles and constitutions of various committees.

“Shareholder activism and regulatory enforcement action has gained unprecedented momentum, leading to increased focus on strict compliance with laws and regulations,” Amin adds.

The increase in regulatory and compliance requirements, followed by raised accountability of auditors, has created demand for accounting expertise, says Rashi Sakaria, CEO at MSI Global Alliance member firm Adarsha Consulting. “Moreover, the increase in outsourcing business related to accounting services all over the world has been a great opportunity for professionals in India.”

Vaibhav Jain, partner at Morison KSi member firm Mehra Goel & Co., explains

that the National Financial Regulatory Authority has been constituted by the government to regulate accounting and audit standards, and take disciplinary action against erring auditors.

“The Insolvency and Bankruptcy Code provides avenues for chartered accountants to act as insolvency resolution professionals, registered valuers and forensic auditors and to provide resolutions and solutions to corporates needing restructuring and due diligence on behalf of potential buyers or strategic investors,” he says.

With the latest Corporate Affairs Ministry move, the NFRA has become the all-powerful body when it comes to disciplining auditors and overseeing the quality of service rendered by chartered accountants at large entities. It is also expected to bring a lot of changes to the way accounting firms are expected to work.

“With the exposure of banking frauds, compliances have become stricter and the liabilities have been shifted towards the auditors and professionals undertaking professional engagements,” says Harsh Bhuta, partner at Morison KSi member firm Bhuta Shah & Co. “Thus, the responsibilities and liabilities of accounting firms have increased significantly, whereas the revenue from the services remains almost constant.”

He also refers to stricter norms for foreign audit firms, noting that the Indian government allows 100% foreign direct investment through the automatic route in accounting and book-keeping services, to boost investments and exports. This allows foreign auditors to work in collaboration with domestic firms, increasing opportunities for domestic firms to interact and compete on a global scale.



Vaibhav Jain, Mehra Goel & Co.

“However, the government is looking into stricter norms for allowing such collaborations,” notes Bhuta. “These global audit firms may be required to make more disclosures, such as information on the flow of funds between the foreign and the local firm and details of existing structures.”

Bhuta reckons the implementation and convergence of new Indian accounting standards with IFRS has been a catalyst for growing demand for Indian chartered accountants in west Asia, Singapore and Australasia.

“Since 31 January 2019, only a registered valuer has been permitted to undertake valuation required under the Companies Act and rules made thereunder, which has brought in a raft of opportunities,” he adds. “The Insolvency and Bankruptcy Code has not only boosted recovery, but also boosted business growth.”

Subir Dutta, director at BKR International member firm Doshi Chatterjee Bagri & Co., offers a different perspective, suggesting that the most significant development in the local accounting market over the last 24 months has related to the affiliation of Indian firms to international networks and associations.

“The ICAI is in the process of identifying firms that are members of international networks and may be having a surrogate practice in India on behalf of international networks, which is beyond the current regulations,” Dutta explains. “As a result, there is a lack of clarity and confusion among Indian chartered accountant firms which are members of such networks or associations.”

Compounding the problem is the growth in small firms undercutting the market to win clients, adds Dutta. “Such firms have neither the adequate competency nor the requisite

knowledge or staff to deliver seamless services to potential clients.”

Public perception of the profession has undoubtedly been negatively impacted by what Manek describes as “major lapses” with respect to auditing, accounting, related party transactions and corporate governance issues for some large Indian corporates, raising the eyebrows of regulators and other stakeholders. As a result, some of the largest accounting firms are facing a backlash from regulators.

“The Big Four accounting firms have been facing an unprecedented crisis,” says Ganesh Ramaswamy, associate at Kreston SGCO.

In June, India’s Ministry of Corporate Affairs filed a petition seeking a five-year ban for Deloitte and BSR and Associates, an affiliate of KPMG, in relation to work for Infrastructure Leasing and Financial Services. The same month, the Reserve Bank of India confirmed that it had banned EY member firm SR Batliboi & Co. from carrying out statutory audits assignments in commercial banks for 12 months from the beginning of April. Last year, PwC’s Indian unit was banned from auditing listed companies for two years.

DOORS OPENED

“These developments have opened the door for firms from smaller networks to be considered for audits as a replacement for Big Four firms,” says Ramaswamy.

Jain agrees that assignments previously undertaken by Big Four entities may go elsewhere. “Firms such as Grant Thornton and BDO have gained momentum in view of their size of operations and brand support,” he says. “There is also significant scope for growth in insolvency practice and around the Goods and Services Tax. With greater focus on transparency, ethics and good governance the accounting profession is set to grow at 20% each year in terms of size of revenue for accounting services.”

All firms must be able to demonstrate quality in what they do, and ensure that all work stands up to much greater regulatory scrutiny, which will be a challenge for some firms but an opportunity for others to demonstrate technical excellence, high standards and ethical behaviour.

That is the view of Nikhil Singhi, senior partner at Moore Stephens International member firm Singhi & Co., who says India is becoming increasingly focused on compliance. “This focus on compliance may, in the medium term, drive demand for audit and



Harsh Bhuta, Bhuta Shah & Co.

assurance-related services, especially for mid-tier firms,” says Singhi. “Coupled with growth areas such as IT and the digitisation agenda, there are opportunities in the market.”

Accountants have to increasingly use smart technology to enhance traditional ways of working, and this has already replaced the traditional approach, suggests Ramaswamy.

“In addition, continued globalisation is creating more challenges for the accounting profession,” he says. “While globalisation encourages the free flow of money from one capital market to another, enhanced overseas outsourcing activities and the transfer of technical and professional skills simultaneously continue to pose threats to resolving local problems.”

He also believes that increased regulation – and the associated disclosure rules – will have the greatest impact on the profession for years to come. “Increased regulation is imminent because of massive tax avoidance, transfer pricing and money laundering as exposed via the Panama Papers. Many professional tax accountants will be affected by intergovernmental tax action to limit base erosion and profit shifting.”

India continues to be a preferred destination for offshoring business and accounting processes, and has an edge over competitors in terms of levels of customer service and efficiency, says Sakaria.

“Outsourcing businesses match clients’ requirements not only in terms of price, but also in terms of availability of skilled professionals, enhanced productivity, service quality and business process excellence,” he concludes. “Markets worldwide are becoming more knowledge-intensive, and India has evolved to be the most-preferred destination for knowledge-based services.” ■