

**INTERVIEW | Y. H. MALEGAM**


## IMPORTANT THING FOR A PROFESSION IS NOT THE BRILLIANCE OF THE FEW, BUT THE COMPETENCE OF THE MANY

*In celebration of its 50<sup>th</sup> Volume – the BCAJ brings a series of interviews with people of eminence, the distinct ones we can look up to, as professionals. Those people who have reached to the top of their chosen sphere, people who have established a benchmark for others to emulate.*

*This second interview is with Mr. Y. H. Malegam. Mr. Yezdi Hirji Malegam is well known in the fraternity of professionals – on both practitioners' as well business side. He served as president of the ICAI (1979-80), served on the Board of the Reserve Bank of India (17 years), and was awarded Padma Shri (2012). Academically, he holds a particular distinction of passing both the Indian Chartered Accountancy examination (stood first and won a gold medal) and Society of Incorporated Accountants examinations (stood first and won a gold medal). Mr. Malegam was appointed on several committees/commissions of significance. He also led one of India's oldest professional services firm for decades. However, what surpasses his achievements and accolades is the respect people have for Mr Malegam for his integrity, clarity and the wealth of experience which is the true hallmark of a professional.*

*In this interview, Mr Malegam talks to BCAJ Editor Raman Jokhakar and BCAJ Past Editor Gautam Nayak about his formative years, accounting and auditing aspects of the profession, current issues before the profession, personal anecdotes from his sixty plus years of career .....*

**Q (Raman Jokhakar) Tell us a bit about yourself as a young professional. What was it like growing up as a fresher then?**

**A** After graduating as a B. Com, I started articles with S. B. Billimoria & Co on 30<sup>th</sup> June, 1952. I was 18 years old. I spent the whole of my first year of articles at Jamshedpur, where we were auditing Tata Iron & Steel Co Ltd (Tata Steel) and Tata Engineering and Locomotive Co Ltd (TELCO). It was a great learning experience. These two companies had perhaps the best corporate accounting systems, and they were amongst the few who had started using the mainframe Punch-Card Hollerith machines. It gave me the opportunity to audit a variety of activities, including manufacturing, sales, iron ore mines, collieries etc. This was the period when there was large capital expenditure in Telco, and it was an opportunity to understand how contractors' bids and escalation claims should be examined. It was also an opportunity to appreciate how the use of accounting machines could change the traditional audit programme. S. B. Billimoria & Co were the main auditors of the Tata Group and the Wadia Group as also Volkart Brothers, amongst a number of business groups, and were auditors of the Reserve Bank of India, the State Bank of India and almost all the large Indian banks. Even while I was doing articles for the Indian Institute, I was simultaneously doing bye-law service for the Society of Incorporated Accountants, London (which subsequently merged with the Institute of Chartered Accountants in England and Wales). After I

completed my articles in June 1955, I continued with the firm for one year, during which time, I took charge of a number of audits of the firm. I qualified in England in July 1957 and returned to India and rejoined S. B. Billimoria & Co and became a partner on 1<sup>st</sup> January, 1958.

I was immediately given some important and interesting assignments. LIC had been formed with the amalgamation of over 230 individual companies, and it was a gigantic task to amalgamate the financial statements of the companies. LIC had 12 auditors, but S. B. Billimoria & Co was one of the four central auditors, and this task had to be mainly done by me.

The Durgapur Steel Works were being constructed by 11 British firms under a contract with the Government of India, whereby the individual firms sold the equipment but formed a company (ISCON), which did the erection on a cost plus basis. Price Waterhouse was appointed by ISCON and we were appointed by the Government to jointly certify the bills for construction. I was asked to go to Calcutta to attend a meeting with ISCON and given two large volumes of the contract, which I studied for the first time on the long flight to Calcutta and thereafter, I was in charge of this work. We had appointed Mr S. V. Ayyar, a retired Chief Cost Officer of the Government as our consultant, and he worked with me. I learnt a lot from him as to how to audit construction invoices, which stood me in great stead throughout my career. For example, steel scrap had to be segregated between structurals which were above a specified length, which were sold as structurals, and which fetched a much higher price as compared to those below this length, which were sold as scrap. Similarly, for all construction bills, it was necessary to examine the drawings and ensure that the quantities billed were not in excess of the quantities as per the drawings. On one occasion, a sub-contract had a performance incentive, whereby savings in cost was to be shared with the sub-contractor. The incentive for which payment was made was a large percentage of the estimated cost. I challenged this and argued that obviously the estimates were understated. This was disputed by the local office of ISCON, and it was accepted only when, on a visit to UK, I met the Company's senior officials in the UK and convinced them about my stand. Later, when examining the fabrication bills for the capital expenditure at Telco, I noticed that the escalation claims had been made and accepted on the basis of the standard escalation claims

of the industry. I pointed out that the standard claim was based on a standard percentage of the rate per ton of fabrication, and it had been overlooked that there were two rates which were applicable, namely one where steel was supplied by Telco and second, where the steel was supplied by the fabricator. The application of a common percentage on both rates resulted in gross overpayment where steel was supplied by the fabricator. This resulted in substantial refunds from the fabricator for work already done, and even more savings for work still to be done.

**Q (R) What are the important parts of your daily routine? Has it changed over the years?**

**A** From my student days, I always liked to start early in the day. Even today, I wake up between 6 and 6.30 am, take a morning walk and then start work by about 7.30 am. The best work, I feel, is done in the early part of the morning, especially the work that involves thinking.

**Q (R) What was your idea of success when you were in your 20s? Did it change over the decades?**

**A** I am not a very ambitious person. I did not have a concept of wanting to achieve something. However, I can say that some incidents played an important role in shaping my career.

In those days, there was no idea of increasing the business by taking the work of someone else. We were the auditors of RBI and of all its subsidiary corporations. I remember that when the UTI was formed, we were closely involved in its formation. You might still find some early documentation



Gautam Nayak, Y. H. Malegam and Raman Jokhakar

written in hand by me in formulating the regulations and Dr Pendharkar, the first CEO of UTI has acknowledged this in his book. Since we were involved in its formation, we expected that we would also be appointed as its first auditors. However, after the formation, UTI appointed A F Fergusson & Co. as auditors. After about two years, the Chairman of UTI called Mr. Billimoria and said he wanted to meet him. Mr. Billimoria asked for the reason of the meeting. The Chairman said that they wanted to appoint us as the auditors of UTI. Mr. Billimoria enquired more about the matter, and the Chairman explained that there were some differences with the auditors. Mr. Billimoria asked the Chairman to give him the name of the concerned partner, and told him that he (Mr. Billimoria) would bring that partner of A F Ferguson & Co with him to the UTI Chairman so that the matter can be sorted out. These were the value systems, which have always guided me.

**Q (R) Who were your role models and mentors? How did they shape your career?**

**A** My parents were my earliest mentors. My mother was one of the first woman graduates and was a principal of a school. Due to this, although she wanted me to study, she insisted that after coming back from school, I should go out and play and do school work later in the evenings. This inculcated my interest in sports. I played cricket a lot, both for my club and also my college, and represented my Gymkhana in badminton and table tennis.

My father was a self-made man. He couldn't complete his studies in medicine due to financial difficulties, because



Y. H. Malegam and Raman Jokhakar

he lost his father when he was eight years old. He started and ran a surgical equipments business, which he built up successfully. He was more like a friend, and did not impose things on me that I had to accept because he was the father.

I was lucky to have good professors who took interest in me in college and then of course there was Mr. Bhikaji Billimoria. After the loss of my father, our relationship was like father and son. He was a complete gentleman in all respects. By his example, I learnt many things, including how to behave with clients and colleagues, and most importantly, never to compromise.

**Q (R) What are the top lessons you learnt over the past 8 decades that you wish to share with the present generation?**

**A** i. To learn to ask questions and not be scared to show my ignorance of a subject.

ii. Never to be patronising and to treat all persons equally, irrespective of their social standing.

iii. Never be unwilling to admit mistakes and take corrective action.

**Q (R) Looking back, is there something you feel that you could have done differently in your career?**

I feel I should have given more time to understanding information technology, where I am particularly deficient. Earlier, I also used to practice income-tax and enjoy it. Unfortunately, I could not devote enough time, as I got more and more involved in the audit practice.

**Q (Gautam Nayak) As a leader of a firm with stature and long standing, what were the important pillars it was built on – that new entrants could emulate?**

**A** i. We placed great emphasis on client acceptance and retention. I had made a policy on acceptance or retention of a client. Every partner, before taking a new client, had to discuss it with me to ensure that the new client met those criteria. Similarly, if a partner was unhappy with a client, he was encouraged to discuss with me, the question of whether the client should be retained.

ii. We never wanted to build a firm that was the largest or the most profitable. The goal was to build a firm that was most respected.

iii. Competence, fairness and integrity were the most important aspects of the firm's practice. Client's confidence in us was the most important aspect. Once we felt that client confidence was not there, we would give up the client. On one occasion, we had a different view with a client group that constituted nearly 10% of our revenue. I was the chairman of the Research Committee of the ICAI, and a paper was presented at a Seminar in Mumbai which suggested that customs duty need not be added as an element of cost in the valuation of inventories. This paper was sent to the Research Committee for consideration. We thought that this was not a sound accounting practice, and issued a guidance on that basis. One of the firm's clients, handled by another partner, had followed this practice, as did many other companies after the Seminar.

Mr. Kuruvilla, CBDT Chairman, asked the CIT, Mumbai to call me and discuss the whole issue of the accounting practice. Since I was aware of the practice followed by our client, I checked with the client if they would mind me attending that meeting with the CIT to discuss the matter. The client did agree. When I saw what the tax department was intending to levy as additional tax on the client, I told the department that the additional tax was payable, but that the computation was excessive, which the tax department accepted. However, the clients felt that I should have defended their position, as they did not want to change their stand. I told my partners that we should not compromise, and that we should give up the client. The client persuaded us not to do so, but within a year, other issues arose, as the confidence had been destroyed, and we gave up the group.

At the same time, it was necessary to demonstrate to the client that we were willing to assist the client to act in any way which was legal and permissible.

On one occasion, one of the Tata group entities suggested an accounting adjustment, with which I did not agree. However, on enquiry, I ascertained that they wanted to give a dividend, but did not have enough profits to do so. They had consistently given dividend, and wished to carry on that practice. In those times, investment allowance reserve was created in the accounts, which was meant to be retained for seven years. Now that the seven years

had already passed, I suggested that this amount could be brought back to the profit and loss account since it was taken out from profit and loss account at the inception of the reserve. The client took some time, and took an external opinion, and came back saying that this was not possible. They had taken an opinion of Fali Nariman. I asked the client that I would like to meet Fali and discuss the matter. After the meeting at the Oberoi, Fali Nariman agreed with my view and even asked me to draft an opinion that he could sign and give the client. This demonstrated to the group that our approach to the audit was not negative and encouraged the client to freely discuss with us all issues with the confidence that we would permit everything which was legal and acceptable, and at the same time not allow anything which was not legal.

iv. When invited to speak on or contribute an article, select a subject you do not know, rather than a subject you are familiar with. This is the best form of learning, as you prepare for the talk or article.

v. In building a professional practice, it is important to attract talented individuals. In our firm, we did this by identifying exceptional individuals at an early stage in their career, giving them positions of responsibility and empowering them and by having a policy of promoting persons to partnership purely on merit, irrespective of religion or caste or other considerations. In our firm, we had partners of all communities, and no partner was related to any other partner.

**Q (G) Can you share your experience of the move from heading a leading CA firm to being part of a Big N firm?**

**A** We had international affiliations for many years even before I became a partner. However, this was mainly an arrangement for mutual assistance. The international firms referred clients to us and we allowed them to examine our working papers to give them confidence about the quality of our work. We also attended their international conferences and built up personal relationships.

When we joined Deloitte Touche Tohmatsu in 2004, the Indian firm consisted of S. B. Billimoria Co, C. C. Chokshi Co and Fraser and Ross. N. V. Iyer and I became Co-Chairmen of the firm. We shared a wonderful relationship, as we were, and still remain, good friends. We both retired in 2004, and A. F. Ferguson & Co. joined thereafter. The Indian firm is, therefore, a combination of 4 large national



firms. It is not controlled by an overseas entity. Only for the purpose of technology or certain technical matters, we had people from overseas. The benefits also flowed the other way - when our Indian clients invested and expanded overseas, Deloitte was appointed to do their work in those countries.

One change that did happen. As the number of partners increased, it became necessary to share profits on a more results-based system and performance gradation criteria became important for both partners and staff. The international affiliation has greatly increased the competence of the firm, as it had greater access to technical inputs from overseas, as also the ability to refer to international offices for guidance on specific issues.

**Q (G) Worldwide, more and more reliance is being placed on valuations and estimates, which are often highly subjective, for the purpose of accounting. Valuers are not as regulated as public accountants are. Is the increasing role of valuation in accounting, more specifically in relation to fair value measurements, making the accounts more subjective and perhaps, less reliable too?**

**A** The one area, other than audit, where I have done much work, and to which I can claim expertise, is valuations. When you do valuations, you have to have access to information, which is otherwise not available in the public domain. My view has always been that valuation based approach should be applied to instruments listed in the markets because the information is available. Valuation based approach is also justified for associates and subsidiaries, because the information is also available. But applying fair value to unlisted entities does not seem reasonable and practical since the information in the public domain is often inadequate.

Fair value is largely applied to financial instruments, where estimates are involved. Therefore, most other entities are not significantly affected by fair value measurements.

**Q (R) Is auditing becoming more a task of form over substance? There is documentation and paperwork, but auditor's judgement could be missing. These days, 60% or more time goes into documentation as compared to actual testing and asking questions. Is proving that procedures have been followed becoming more important than the actual application**

**of mind? Is this desirable? Have the fundamentals of audit changed?**

**A** One thing is that the auditor needs to be more sceptical. In the olden days, you assumed that everyone was a gentleman, and you accepted what they said. Now you have to be sceptical of the people at the highest level because all of these frauds take place. Not fraud in terms of taking money out from the company, but fraud in falsification of accounts for a number of purposes. This is a grey line, at which things can be done without your knowledge, so you have to be much more sceptical during the audit.

I think you also need to realise that documentation is there for your protection, but documentation alone does not add to the value of audit. Except, of course, the very process of creating documentation means that you do not leave out some essential parts of the audit. To that extent, it is useful, but it is not an excuse for not doing a good audit.

The other feeling is that when you had a lot of manual work, which was being done earlier, accuracy of accounting was one of the objectives. You had to balance the trial balance, you had to take totals, you had to do postings; now all that is gone - machines are doing all that. Therefore, in the olden days, you needed a lot of junior staff to do this work. Now that need does not arise. Therefore, an audit cannot be done by junior staff. You now need to do audits only with higher level of staff. And therefore, the professional now has to think about this - that can you afford to do auditing, when you rely upon the work of juniors, when in effect the skills needed are of a much higher level? That, I think, is affecting firms from properly addressing the problem.

If I may take an example, if you are talking of concurrent audit in banks - the whole purpose of the concurrent audit was to prevent a malpractice before damage takes place. And therefore it was nothing else, but equivalent to internal audit, but internal audit done concurrently. Therefore, you need much higher skills. And if you do not do that, if you entrust that work to the articled clerks or the people who have no maturity or the understanding of this, you are not serving any purpose. In fact, you are creating a worse situation, because you rely upon something, you assume that is done, but there is no such control. That I think is the big area, which you have to address.

**And the other thing is, I think, increasingly now the purpose of audit is changing.** In the past, the purpose of audit was to give some degree of reliability to the financial information. Now, reliability by itself is not enough, with increased computerisation, it is assumed that it will be reliable. What is now needed is some assurance that there is no mismanagement, that there is no fraud; some assurance that you are able to provide to the reader. See and answer the questions like - What is the future of this company? Is this run as efficiently as it should be run? This is where the changes are taking place.

**Q (R) How do you see the audit profession developing in the future? Would use of technology, such as artificial intelligence, replace a significant part of the audit process and audit judgement in the future? Or would it only help in reducing test checks?**

**A** One of the things perhaps I was thinking about, is the perception that the big firms are doing better audit. I think one of the reasons perhaps is, that in the big firms there is now specialisation. The Audit partner does only audit, the tax partner does only tax. Now, in the smaller firms, the same person is doing both audit and tax. I feel somehow, that maybe you are not developing sufficient skills in either area, in trying to do both. You may be an average auditor and an average taxman, whereas if you specialise, you would probably be a very good auditor and a very good tax practitioner. Now this is the problem which is faced, and therefore, what can the profession do? We are producing a large number of members, and there is just not enough work in the audit profession for them. Therefore, for those areas which are more individual oriented, where you need individual skills, there is no harm in having small firms, just as you can have a lawyer who is appearing in the court as an individual. He can have few support staff, and he can have a huge practice. But you can't have a solicitor's firm without having a large number of people specialising in different areas. Now that is one of the basic issues in the profession. If you want to go into the audit area, people must get together and create larger entities; without that, you cannot function, because you need larger staff, you need more finances for systems, for machines and for various other purposes.

The second is - that the skills have to be upgraded and I don't know whether we are doing that adequately. If you, for example, find that people want more assurance than there is available today, then obviously you will need to

have the skill to do that. What is needed is to understand what is a good system of internal control, to know how you detect fraud and what are the forensics skills that you need. I think we are not doing enough of it in the training. We keep on doing the same training over and over again. I used to tell that even in the olden days to my staff – I said "You are only looking at the paper. If someone gives you a bill that he travelled by taxi, you will accept that bill. You don't know who has signed that receipt or if such a person exists, but if a man tells you that he travelled by taxi, you will not believe him. Now, perhaps you can be a better judge to see whether that is a person, whose word you can rely on, rather than a piece of paper". Now that is the skill which you have to develop, what is the relevant evidence for checking the transaction, not just a piece of paper. That is the whole point.

**Q (R) Meaning, the amount of questioning or the type of questioning and judgement?**

**A** Not just questioning. First is, that you are dealing with people you must have the ability to assess, on whom you can rely, and on whom you cannot rely. You have to be a good judge of people, and you can find that out straight away. There are some people whose honesty you do not doubt. I am talking about intellectual honesty. Then there are other people - you feel that maybe he is just trying to tell you what you want to hear. So you have to understand that you have to be polite, good but, at the same time, sceptical. You have to put yourself in the shoes of that person. If there is a company which is making losses, the normal practice will be to try and reduce the loss, if it is making profits, the practice will be to put some cushion there, that sort of a thing.

**Q (R) Few questions on the professional scene in India: The Chartered Accountancy profession was built on certain values and principles. People who know you, hold you in the highest regard in terms of abiding in and living those values. As you interact with professionals – be it Directors, Auditors, Regulators – do you feel that some of those fundamentals have undergone a change?**

**A** I have personally not come across people for whom I would say that I have some reservations about them, but I have at the same time found the general impression of others to be that standards have declined. That is unfortunate.



Y. H. Malegam

I will give you a specific example. I was talking to some bank people, the Managing Director of a bank, and I was trying to work out how we can make better systems, so I was making some suggestions, and I said, "If you can get the borrower to submit audited certificates on these aspects, then it will give you a better control." And I was shocked to find the response from that person, when he said, "No, no, no, after all, all these auditors certificates are fake certificates. We cannot rely upon any of these auditors certificates". And this, unfortunately, is happening, because either the auditor or the person who gives the certificate doesn't understand the importance of that certificate or he is too much indebted to that client that he cannot afford not to do this.

**Therefore, as far as the profession is concerned; we have to have a zero tolerance practice.** Again, I will give you an illustration. When I was the president, there was Mr. D'Souza who was the Commissioner of Income tax. In the morning one day, I read in the newspaper a report about some raid, and one Chartered Accountant who was involved. So I went that morning to Mr. D'Souza and I said, "Can you make a complaint against this chartered accountant?" He was shocked, and he said,

as a President, he had expected me to protect the member, and here I was asking him to make a complaint against a member. I told him that "Sir, I am protecting my members. By making a complaint and by punishing this person, I will give the right message to the rest of my profession. Whereas without that, it will be assumed that the whole profession is of that type". So that's why I am saying that we have to have zero tolerance. Anytime something happens, you have to punish people who are guilty because ultimately they are the custodians of a brand. Chartered Accountancy is something which should carry a lot of respect. **The fact that you are a chartered accountant must be synonymous with the fact that you are a person of integrity. Now if that brand is damaged, the whole profession gets damaged.**

Unfortunately, our value systems have changed. You admire a person who is very successful and how do you measure success? You measure success by the fact that he has got a large practice, or that is he making a lot of money or that is he able to buy a large office. In our days, we never looked at it in that fashion. We looked only at the respect a person commanded, and the fact whether he had a large practice or small practice didn't matter.

**Q (G) Related to this fact - Some people believe that the distinction between business and professions, such as the CA profession, has now blurred, and that every profession has to function like a business to grow and survive. What is your view?**

**A** See, I think there is some force in that. What has happened is, that you have composite firms. You have firms that do auditing, they do taxation, they do management consultancy, they do advisory services etc. So when that happens, naturally the people you take on in the firm include non Chartered Accountants. In the old days, you had one or two or a few of these people, now a majority of the people are non Chartered Accountants. They don't have the same background, discipline etc.,- they are result oriented. And when they are result oriented, their whole value systems are different. Not that they are dishonest, but for them getting work, making larger profits, these all are more important. What is happening, therefore, is that in these firms, the Chartered Accountants are feeling the heat. Their performance evaluation etc. is now being judged on the same lines as the others. And therefore, there is a strong temptation sometimes to cut corners. Even in the olden days, when

you had people, in say a commercial organisation, you had a chartered accountant and you had an MBA, and the MBA seemed to be more progressive, more dynamic and then the chartered accountant in order to survive, had to become more dynamic – that sort of a thing. So there is that risk, but ultimately this is what I feel - no individual can use this as an excuse for rationalisation. The final test for an individual is to be his own judge. If he believes that what he is doing is ethical, his conduct is correct etc., then it doesn't matter whether the whole thing is becoming a profession or not, or whether it is becoming a business. Even within a business, you can act like a profession.

**Q (R) About Work and Lifestyle that is changing these days - Today in spite of technology, most people around us are more stressed. There is more stress and burnout amongst CAs. You worked during times when there were no calculators, and everything had to be done manually. What has changed?**

**A** The burnout is not because of technology, in fact, technology helps you. This burnout is again because of how you measure success. What do you want to achieve? Contentment is a very difficult quality. Peer pressure is there, and all of these situations lead to it.

**Q [R] Having been a director of many companies, what are your views on the overall quality of audit in India and the independence of auditors?**

**A** Well, I have not had any occasion whereby I can say that I have had any reservation about the quality of audit or about the independence of the auditors. In fact, I would say that the audit quality over the years is quite good and it has improved. But I have been connected for auditing with some big audits and big firms; I can't really judge this for smaller companies. But as I said, it's only in some of the financial institutions, where this feeling is there that the reliance on the information which is provided, duly audited, is not of the quality that one would have expected.

**Q (G) With so many high-profile frauds becoming public, auditors are being blamed. Is the criticism justified? What are the real causes for this? You mentioned about bank directors feeling a certain way. Do you feel that the role of auditors needs to undergo a change to match changing public expectations? Or is a publicity initiative required to educate the public**

**(besides the Government) as to limitations of an audit? What, in your opinion, is the long-term remedy to meet this mismatch?**

**A** You see, it is very difficult at this stage to say, but basically, you can have frauds which are facilitated by a number of things. You can have a situation of a fraud where there is collusion between the borrower and the staff, or there is failure of the staff to perform their functions. I don't think external auditors can have a role in this. You can have a problem, where the borrower and the staff exploit the gap in the internal control system, and that perhaps is an area where to some extent the external auditor may have a responsibility.

And just to illustrate, this question of where you have a letter of undertaking, which is not recorded in the accounting system itself. Then, whether the system is such that it should have been recorded - that system failure is perhaps where the auditor has some responsibility. You cannot expect an auditor to look at the failure of the internal control regulation, or internal control procedures. That the internal auditor has to do so. I would say this - to the extent to which there is a fraud in the nature of the falsification of financial information, I think the auditor needs to be held responsible.

**Q (R) Self-regulation is seen as a conflict of interest. Why so? There are so many places where there is similar apparent conflict of interest – legislators passing laws to approve their own emoluments, a tax officer becoming an appellate officer, or a lawyer-friendly with fellow lawyers becoming a judge before whom these fellow lawyers now appear. Do you agree that self-regulation is a conflict of interest, or that it has failed? Recently we have seen quite a bit happening – how accountants can self-regulate is being questioned.**

**A** I believe that all professions should have self-regulation, but I also believe that there is no harm in having an oversight. But it's a question of what is oversight. Oversight is not regulation - that is the big difference which you have to make. The oversight is to ensure that the system of self-regulation is functioning, but the oversight does not take over the functions of the self-regulator.



Having said that, it is also the responsibility of the self-regulator to be able to demonstrate that the self-regulation is effective, that you have sufficient independence, that there are penalties for failures, and so on. If again, I may give an example. You look at the Microfinance industry. The Microfinance industry was in a shambles. Then, when we made that report, we had made a number of regulations about what a Microfinance company could do, could not do, etc. And, at the Reserve Bank, I was asked, who is going to monitor all this, and I said: "Our recommendation is that you have a self-regulatory body. Because the whole idea is that a regulator does not have the resources to enforce regulation".

Years ago, when I was asked to chair the committee on the offer documents by SEBI or its predecessor. Before every prospectus was to be cleared, it was examined by the department. And it took 2 months to clear that. Then I said that it was ridiculous, why should you do that? You appoint an intermediary. The merchant banker is your intermediary. He has to ensure that all the regulations are complied with. And then you enforce discipline on the Merchant Banker. If the Merchant Banker does not function, you deregister him. Now, the threat of deregistration is sufficient to ensure that he does his job. Similarly, SEBI doesn't regulate, the stock exchange is the regulator. So, there also, you may have an oversight body, but there must be a self-regulatory body, like the Institute, which must ensure that the regulations are followed.

**Q (R) In this context, do you feel that NFRA, the way it is constituted now, in its present form justified? Given the qualifications required of NFRA members, do you feel that they would be able to understand the audit process, constraints and judgement calls taken by an auditor?**

**A** I have not studied it in detail, but my general feeling is that the oversight body has to see the functioning of the self-regulator, but not take over its work.

**Q (R): Right now they have powers to investigate, they can enforce AS and SA and they can directly reach auditors.**

**A** I feel, that perhaps is too much. That is not the correct approach. But then you have to demonstrate that you are doing your job adequately. Otherwise, the rationale

of doing this is because they feel it's not being done adequately.

**Q [R] What is your view on rotation for public interest entities, particularly given the international experience showing that rotation leads to audit concentration?**

**A** I have always been against rotation of audits, to be quite honest. And I think the rationale for rotation, that I pointed out repeatedly is, that if you imposed rotation, you will be in fact destroying the second level firms. What has happened is that a number of the companies grow, and as they grow, they still want to retain the auditors with whom they have grown. But when you impose rotation, you give them an opportunity to change their auditor, and when they have to change, they will go to a big 4 firm. So, in a sense, a lot of the work which is there with the second level firms will flow into the big 4 firms. And I don't think, quite honestly, that rotation is the answer to lack of independence. Whereas, the answer to that is the restriction on exposure.

I mean, if you said, for example, that you cannot have more than X percent of your work from a single group. Because they say, at that level what will happen is, as I said, that if I gave up 10% of my work I could afford to give it up, but if it was 30% of my work, I would have had second thoughts of giving up that work. So you must not allow firms to get into the situation where they are overall dependent on a particular client or a particular group.

**Q (G) For that do you feel that the concept of joint audit should be introduced in India, to encourage the growth of medium-sized firms, and reduce audit concentration?**

**A** I think quite honestly the whole motivation for joint audit is wrong. You cannot impose regulation on audit to help yourself. This is what has created a strong dislike of the profession, especially in the case of banks. Every time, our Institute has gone to the Reserve Bank of India to say, give us branch audits, because if we don't do branch audits, then what will our members do, it has destroyed its credibility.

**Is it the responsibility of the client to provide work or is it the responsibility of the profession to offer to the client the service which the client needs? If you tell**

me that the joint audit is there and it helps because the client is not dependent on a single auditor, and it helps independence, I would agree with that view. But then, the client must be free to appoint anyone as a joint auditor. But, as soon as you go and tell the client that the law says that you must appoint a joint auditor because it will help the smaller auditor to get work, then that's completely wrong. And when the profession adopts or the Institute adopts such an attitude, then you are creating a big damage to your image.

**Q (R) Sir, how do you view SEBI's recent order against Price Waterhouse? SEBI has sought to debar not just a partner or two or not even just the firm involved, but it has debarred the whole group. What is your view on this? Secondly, SEBI also brought out a lower test of 'preponderance of probability' as a sufficient test in this specific matter instead of applying the test of 'beyond reasonable doubt'.**

**A** I don't know the details of this 'preponderance of probability' which you are talking about, but I do feel that, when you take action against a firm, and you take action against an individual, the action against the individual should be on the ground that the punishment for an individual should be to debar him from doing the work for a period of time or for all time, depending upon the severity of his offence. The action against the firm should only be a financial penalty, unless you can show that the firm itself directed the individual, and the individual was acting as an agent of the firm for the purpose of doing this. That is the whole approach.

**Q (R) Recently the ICAI made certain changes, bringing the firm in, or the amendments in the Companies Act, 2013 relating to the liability of the firm – all of this is becoming more serious for auditors.**

**A** I feel it is virtually impossible, I mean it's like saying that every time the officer of the company commits an offence, you can stop the company from doing business, you can't do this.

**Q [R] Also Sir, what is your view on the Supreme Court observations and directions on the operation of Multinational Accounting Firms (MAF) in India? SC has directed the Institute to take action against MAF who are acting as surrogates of foreign accounting firms.**

What is meant by surrogates?

**[R] ICAI in their reports stated that some of firms operating in India are in violation of foreign investment norms. Accounting and auditing service is blocked under GATS.**

**[G] Some firms have received subsidy from foreign entities to acquire Indian firms – example was Price Waterhouse – other example – there is a private limited company where there is foreign investment, you have Indian firm – Indian firm is regulated – but office and staff are same – same visiting card, sharing the same office, – on paper they are separate, but in reality, acting as one entity.**

**A** No, I personally believe that if you have an Indian firm and it is a part of the international membership, there is no harm in a network arrangement, because it is like all enterprises you work everywhere - work in cooperation, collaboration, you get synergy out of this. If you do work here for a foreign company, then you should do it on arm's length basis, then you should charge for it. But if a foreign company or firm does something here indirectly, what it cannot do directly, then obviously there is an offence.

**Q (G) The Institute has issued letters to all firms who are members of associations, not even networks. Firms other than Big 4 - Indian firms who are members of an association, have also been issued a letter.**

**A** I don't see any difference in them. Having an arrangement with an international firm, which gives you access to technology, is no different from having a company having a technical collaboration agreement with someone. I do not see any particular reason if you are paying a royalty to an international firm for using their name. Then again, you have to see that there is a royalty agreement which is in place. But if that International firm has a network here, and you are doing that work on their behalf, then it is a different situation. So you have to go on the facts of each case - you cannot generalise the situation.

**Q (G) Indian Firms expanding overseas: Why has the Indian accountancy profession not been able to go global? What do you see as the biggest stumbling blocks to Indian firms going global?**

**A** The question is like this – an Indian firm expanding overseas would start off with the proposition that you are an Indian group which is operating outside.

If you have, let's say, a large number of Indian client companies / groups having foreign subsidiaries, then clearly you may need local firms to handle that work. Suppose, for argument's sake, you have a company, which has a subsidiary in Spain. Now, you can either have a local accountant there in Spain, or if you have a large number of clients in Spain, you can have a firm there, which has an affiliation with you, and that firm can do that work for you.

**Q (G) The problem when you talk about collaboration here is, the Institute does not allow sharing of fees with non chartered accountants – typically, the ICAI looks at it this way - a payment of fees to the foreign firms is regarded as a violation of code of conduct.**

**A** I think, there is nothing which prevents you from subcontracting work to a foreign firm. Sharing of fees and paying for services are two entirely different things. Sharing of fees means, the top line you are sharing. Example, if you get work done from a solicitors firm, if you get work done from a lawyer - why should you not get work done from a chartered accountant or an accountant there. If you are making payment for services rendered, that is not sharing of fees.

**Q [R] Constraints on Advertisement - Do you feel that the constraints on advertisement and publicity on Indian CA firms need to undergo a change, and to what extent, especially when increasing number of services can also be rendered by non-CA firms – like GST or tax work or internal audit - who have no restriction on advertisement? Do you feel that such regulations in a competitive environment are detrimental to the growth of the profession?**

**A** I think, perhaps the answer to that is, that you should have a separate firm doing non-audit services. If you have a separate firm which is doing non audit services, then that firm because it is competing with non chartered accountants should be allowed to advertise, but if you have the same firm, then the question is that preferably the names should be different - you cannot have indirectly, a brand extension.

**Q [R]: But then the ownership...**

**A** The ownership can remain the same. Same people can be partners in both the firms.

**Q [R] The role of ICAI has already been curtailed significantly – disciplinary action and standard setting going out. It is today left with education and registration of members. What is happening and how do you see its role going forward – will it remain with these two functions?**

**A** See, in fact you have to go back, I don't know enough about the present situation. The Institute started as a regulatory body and an examination body, that is how it started. Then it developed, it setup a Coaching Board. So, the core function of the Institute is still there.

Now, the question which arises is the standard setting. Everywhere in the world, the standard setter is a separate body. Now, there is no harm in the Institute being an Accounting Standards Board, but the difficulty, which I had always pointed out, was we set up an Accounting Standards Board, and its composition was of the Council Members plus a few outsiders. The authority of the Accounting Standards Board was subservient to the authority of the Council; the standards were issued not by the Accounting Standards Board, but by the Council. Now the question is, does the membership of the Council have the competence to do this? The difficulty is that we were not willing to shed power and responsibility. If you had created an Accounting Standards Board, where you have the right to appoint members for the Accounting Standards Board, but with a composition which said that majority of the members would be from outside, that the chairman of Accounting Standards Board would be an outside person, that the Board had the authority to issue standards, and the Council was only concerned with the procedural part and not the technical part, then you can have it within; otherwise you can have it outside. That's your standard setting function. What happened with the disciplinary action? The disciplinary action was, and this again I had been pointing out for a long time; you had to make a distinction between normal complaints which were received and information received from the regulatory bodies.

I will tell you in practice, the stand that we were taking, in the Reserve Bank. We had a Board of Financial Supervision, then there was a sub-committee of the Board, which was called the Audit Committee. Now it's

no longer there. In my time, it was there. The function of that Audit Committee really was to examine, whether there was any lapse on the part of the auditor. When an inspection report brought out that there was something wrong, and that the NPAs were not properly disclosed, we would insist on first sending a notice to the auditor, to see what his explanation was. Then, as an independent body, we would consider this. And if we were convinced that there had been a failure, then we would go ahead and make a complaint to the Institute or inform the Institute. What does the Institute say- it said No! You have to make a formal complaint, and if you are to make a formal complaint, then your people must come and give evidence, and you must do all that is required of a complainant. Now, no regulator is willing to do that. After we made a reference, no action was taken for years. So what did we do finally? We decided that if we were *prima facie* satisfied, we would take action on our own. We don't have to wait for the Institute. Now, this was when the Institute didn't make a distinction initially between the matters of public interest, matters of internal obligation, the independence of the disciplinary committee and its functioning. These are not some things which happened today or tomorrow. They happened over a period, and a bad image was created. As a result of that, you gave an excuse to the government to take away those functions. Now you can't blame the government for doing this.

**Q (R) It is a result of things that have happened over the years.**

**A** Yes.

**Q (R) Do you feel at some point, we should have, like in some countries, they have multiple Institutes, meaning there is no one body that will give the license.**

**A** There is only licensing, like that of the Board of Trade in England, because there are separate Institutes which exist. I don't think that would probably come here.

**Q (G): One aspect about image of Chartered Accountants, which you mentioned. Amongst banks, the image is quite negative. What do you think needs to be done now? How does one arrest this problem going forward? One is, of course zero tolerance policy you mentioned. What needs to be done now going forward?**

**A** I think it is a long drawn out process, but you have to build up confidence. The important thing is that for a profession, what you need, is not the brilliance of the few, but the competence of the many. You are holding out that as a member of the profession, your members have a certain minimum level of competence. You have to ensure that the competence is there; you have to ensure that the work is taken by people who have the ability to discharge that work. But if you are acting like a politician, where you are trying to please your voters and get more work for people without ensuring it's need or the competence, you are damaging the image of the profession. ■

