

# National Foundation for Corporate Governance

## National Conclave on Corporate Governance in India : *Disclosure Practices – Accounting and Audit*

10 October 2007 : Bangalore

### Plenary Session: Trends in Accounting and Audit Disclosure Practices

#### Discussion

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#### Observation by Mr Jitesh Khosla

I would like to add a remark. During the discussion a hope was expressed that there would be a 100 Indian MNCs. We support that, why 100, there could be more, may a 100 Indian MNCs bloom and so on but that the same time it is important to understand that there is a huge section or part of India where there are a number of needs and aspirations, a need for services, a need for inputs which is not yet a participant in the market. The potential market lies in meeting those needs, meeting those services and the entrepreneur potential in those areas, the rural India, the under privileged India and the deprived India.

That is what it has been conventionally called but potentially it is not that. Potentially it is a well spring of energy, health, the new markets. Along with the 100 MNCs Which are going to flower across the globe hopefully we feel that the emerging challenge and the emerging opportunity will be for those companies who are able to convince the small investors in these small town and cities, the small consumers in the rural areas and the small entrepreneur wherever he is to come in and participate in the economic activity.

That is where your growth is going from 9 to any number. Maybe that is one part of the story that we need to look at little more carefully.

## **Question from Vinod Dadlani to CII & MCA**

Whether individual cases of non-disclosures or insufficient disclosures of major companies at these are looked into for any deviation. Whether any clarifications issued based on that. A recent example is one of the leading construction and engineering company which had issued ESOPS to nominate directors and this matter had gone right up to the high court. Whether some of these practices can be widely publicized and action taken can be demonstrated.

## **Answer by Mr. Jitesh Khosla**

This will have to be dealt with in a little more detailed and a complex manner and we are working on that. Let me look at their way the whole system works. The government has notified accounting standards and the parliament through the Companies Act has prescribed certain legal requirements. Legal requirement where they are placed needs no celebration because everybody is supposed to read them and comply with them. The law doesn't have to say that you read it and comply with it because it is there you have got to comply with that. But having said that the kind of issues which are likely to come up and they will come up in a large number of areas and as we go in to this transition, maybe more of them will come up. So we have to deal with them in a different way. The government will not give any clarifications on those. Whatever government has to say has to take the route of legislation or subordinate legislation. That is in terms of rules or standards or whatever and at best changed or amended which is a long drawn process on the basis of perceived requirements but of necessity because the regulatory system cannot be hyper sensitive. It has to have a certain degree of stability built into it. If there is a felt need on the basis of experience or whatever analysis or studies by accounting bodies and these things that will take place. But at the same time we do need to build in a little bit of flexibility and dynamism into the evolution and development of the practices so that a proper response can be given to situation like these.

In one sense this is the question of, let's say, identifying these practices and of recording them, okay here is a practice which is not exactly illegal but it is a deviation which is not fully explained by the existing rules or regulation or whatever. We need to identify them and spot them and that is where the

accounting profession can play a big role, through their institute can play a major role in identifying these areas for future. But at the same time with the amendments in the Chartered Accountants Act in 2006 we spoke about the changes taking place. Now there will be under the statutory body which will be working within the institute which is recognized as a separate body and it contains a representation not only from the institute but also from the regulatory bodies, the RBI, the Comptroller and the auditor general and so from the business and industry. I am referring to the quality review board. The mandate for the quality review board and it was brought in recently you do have peer review but that is different.

Professionals analyzing and addressing problems among themselves, that is a different issue. The quality review board will go in to these issues and identify and look at ways of addressing the issues. They are supposed to give formal recommendation to the council and the council is supposed to act on them. In addition the Institute of Chartered Accountants would be providing what and it would continue to provide what we call guidance notes. The difference is in the earlier regime when the accounting standards were deemed accounting standards it could also issue interpretations but now interpretations are not possible because what is there is there in the law. So the guidance notes to cover these areas will be necessary and they will continue till the time a change can take place accounting standard or the regulation or the rule or whatever. Sometimes the issues raised are whether there can be a concept of an advance ruling or clarificatory ruling. We are not very clear yet on the use of such an instrument. This has had a very mixed effect in the Companies Act where some of the clarifications given on provisions of the Act were subsequently challenged in the court and so on. Where you have brought a certain compliance in the regime of the law giving clarifications and all is the very risky business It may or may not be. So this will continue to be regulated through a combination of the law and the regulation and they work done by the institute.

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