

Auditors should be paid from a pool of funds

The Institute of Chartered Accountants of India's (ICAI) move to write a new code of ethics is welcome, but it can be effective only if it compels auditors to raise their standard of ethics and values. No large corporate fraud has been exposed by eagle-eyed accountants, but by insiders or through a confession - like Ramalinga Raju's mea culpa in the Satyam scam.

The new code should raise the level of accountability of auditors. Ideally, auditors of companies should be 'whistleblowers', even as they discharge their fiduciary role. Such a system is in place in the banking sector where the RBI clears the appointment of auditors who, in turn, alert the central bank about frauds. There's no reason why all companies cannot replicate this practice.

Statutory auditors are supposed to point out irregularities in audit reports attached to the firm's annual report. Unfortunately, that seldom happens. There is a conflict of interest as statutory auditors are appointed and paid by the company they audit.

A better way could be for companies to pay audit fees into a fund maintained by stock exchanges, for listed companies, or with the registrar of companies, for non-listed ones. Auditors should be paid from this fund, not by any company directly. Rotation of auditors must become mandatory.

Whistleblowers need to be encouraged and protected against pressure. A clear-cut policy for every organisation that guarantees protection for whistleblowers makes sense. Prompt action should also be taken against an errant company, based on the auditor's report.

Competent statutory auditors, rigorous internal audit, transparency and disclosures combined with strong independent directors and active shareholders will ensure better corporate governance. The government should implement its plan on early warning systems to detect fraud and work for speedy passage of the Companies Bill to make both statutory auditors and independent directors more accountable.

It should also reform political funding to usher in transparency in the relationship between companies and political parties. The reform of campaign finance will boost corporate governance as well as political ethics.

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