Companies bill bars non-audit operations of auditors

Audit firms may no longer be able to offer non-audit services like investment advisory and management services to companies as the government plans to prohibit such activities to checkany conflict of interest, leading to a potential fraud. The move, in line with rules proposed by the European Commission, has seen the global audit and financial service providerslike Deloitte and PricewaterhouseCoopers cry foul, saying the proposal is "ridiculous" and will hit their operations.

As part of the Companies Bill 2011, the government is planning an overhaul of the audit andfinancial services sector to guard against corporate frauds and irregularities. A major proposal made in the bill includes separation of audit and non-audit functions, when offered by the same firm.

The proposal prohibits any audit firm to offer a variety of non-audit services that include accounting and book keeping; internal audit; design and implementation of any financial information system; actuarial services; investment banking; and rendering of outsourced financial services.

The government has also made a provision to add further services in the future by reserving the right to add to the list of prohibited services.The proposal prohibits offering of such services (directly or indirectly) not only to the company whose audit is being conducted but also to its holding company or subsidiary company or associate company.

And to ensure that audit firms do not offer the services through any other route, the proposal has even put restrictions on use of related entities. "...in case of auditor being a firm, either itself or through any of its partners or through its parent, subsidiary or associate entity or through any other entity, whatsoever, in which the firm or any partner of the firm has significant influence or control, or whose name or trade mark or brand is used by the firm or any of its partners."

The move will hit top multi-disciplinary companies, including the Big 4 like KPMG and Ernst & Young, all of which offer not only audit services but other allied financial services too. In fact, many a times the services are offered to the same company, which the proposal wants to stop.

"This (proposal) is ridiculous. On the one hand, the government is saying that firms should offer multi-disciplinary services while on the other hand, it is talking of audit-only firms. This will be counter-productive," P R Ramesh, chairman of Deloitte India, told TOI. He said the move will impact the operations of large firms and will reduce their ability to attract subject-matter experts. "Not only will we lose scale, we will also lose manpower. How will we make investments in people."

Pricewaterhouse had a similar view. "The Bill seeks to take quite extreme positions in each and every thing," Harinderjit Singh, Partner at Pricewaterhouse and a former council member of ICAI, said. Ramesh added that to check irregularities by audit firms, the government should establish an effective oversight mechanism. Also, the punishment in case of a fraud needs to be swift and severe."

But while being criticized by the big firms, the move is being appreciated by other experts. "It is an appropriate step and will help bring in transparency. The move is aimed at ensuring that there is no conflict of interest," Ved Jain, former ICAI president, said. Auditing firms are already criticizing the proposal in Europe, saying customers would suffer.

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