



# **ROLE OF CHARTERED ACCOUNTANTS IN CORPORATE GOVERNANCE**

1



## SEEMS LIKE YESTERDAY!

- "I see in the near future a crisis approaching that unnerves me and causes me to tremble for the safety of my country. . . . Corporations have been enthroned, an era of corruption in high places will follow, and the money-power of the country will endeavor to prolong its reign by working upon the prejudices of the people until the wealth is aggregated in a few hands and the Republic is destroyed."
  - — Abraham Lincoln [1864]

# WHAT IS CORPORATE GOVERNANCE?

Corporate Governance is the systems and processes an organisation has in place to protect the interests of, and add value to, its diverse stakeholder groups



# WHAT IS CORPORATE GOVERNANCE?

- There are several definitions, but I consider the wisdom in Thirukural to be the best

இயற்றலும் ஈட்டலும் காத்தலும் காத்த  
வகுத்தலும் வல்ல தரசு

- Good Governance is one that
  - Increases means to earn
  - Maximises earnings from these means
  - Preserves and protects the earnings
  - Appropriately distributes the earnings to various stakeholders
- Corporate Governance in short should ensure this Good governance principle enshrined in our timeless Thirukural



# OVERVIEW OF THE ROLES A CA PLAYS...



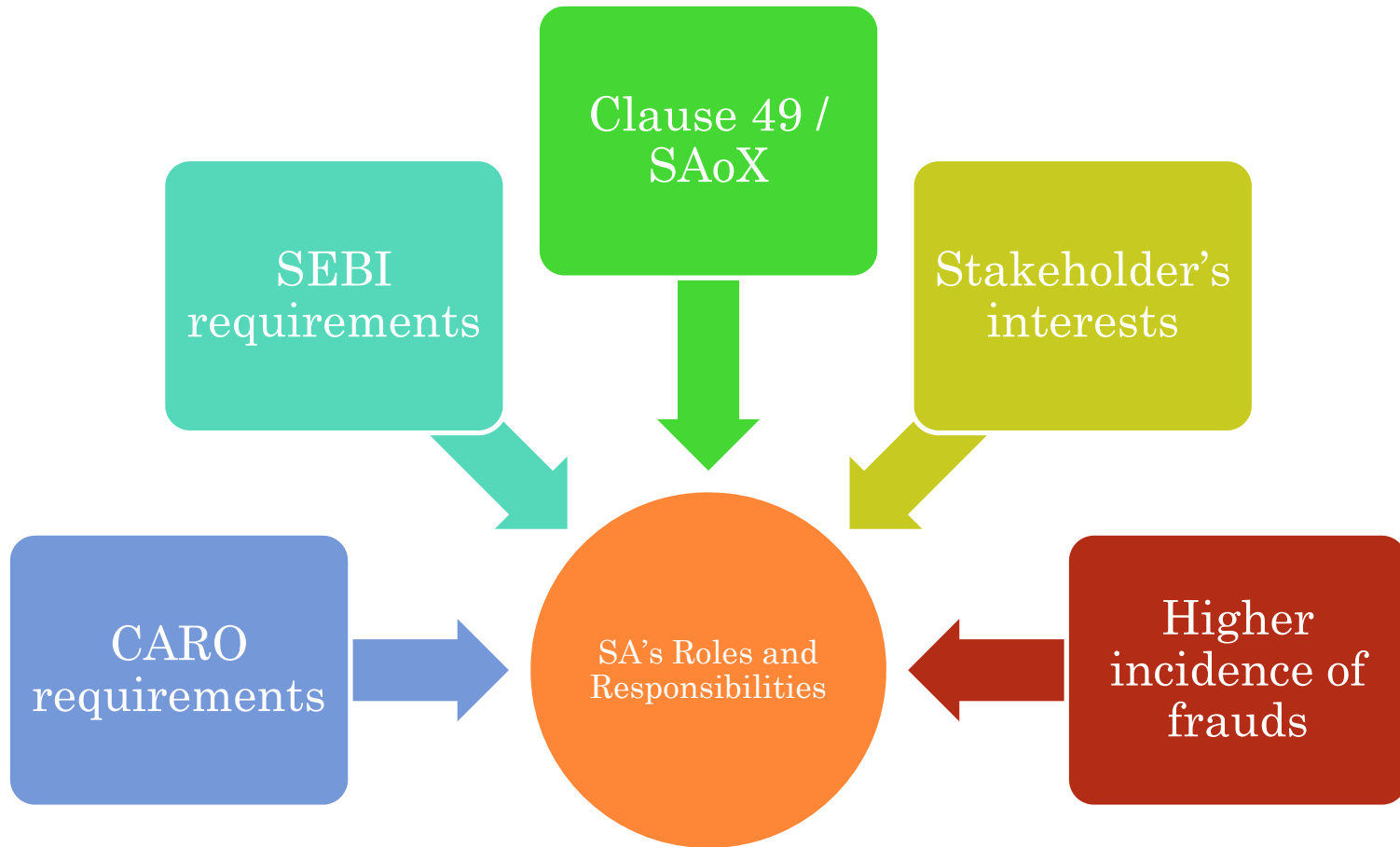


# STATUTORY AUDITOR

Chartered accountant's role in Corporate  
Governance as a Statutory Auditor

6

# DRIVERS OF STATUTORY AUDIT'S ROLES AND RESPONSIBILITIES



# COMPLIANCE FOCUSED...

Identification of CG requirements

Evaluation of the implementation

Cross verify compliances

Reporting for non compliances

## Scope of work:

Examine and report factually on compliance with Corporate Governance requirements as per listing agreement

Its not an assurance or an opinion but a factual reporting

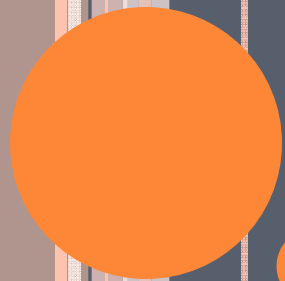
Leading to:

- A factual certification of implementation compliance
- Deal with non compliances, as may be applicable



## BEYOND THE BASIC REQUIREMENTS...

- Advice company on non compliances as well as potential non compliances
- Advice on mandatory disclosures
- Spirit of the CG requirements vis-à-vis the written requirements
- Review non mandatory disclosures to ensure that these are factually and contextually appropriate
- Share experiences on better practices with regard to CG compliance as well as documentation etc.,
- Be an advisor to the Board and Management on questions relating to Corporate Governance



10

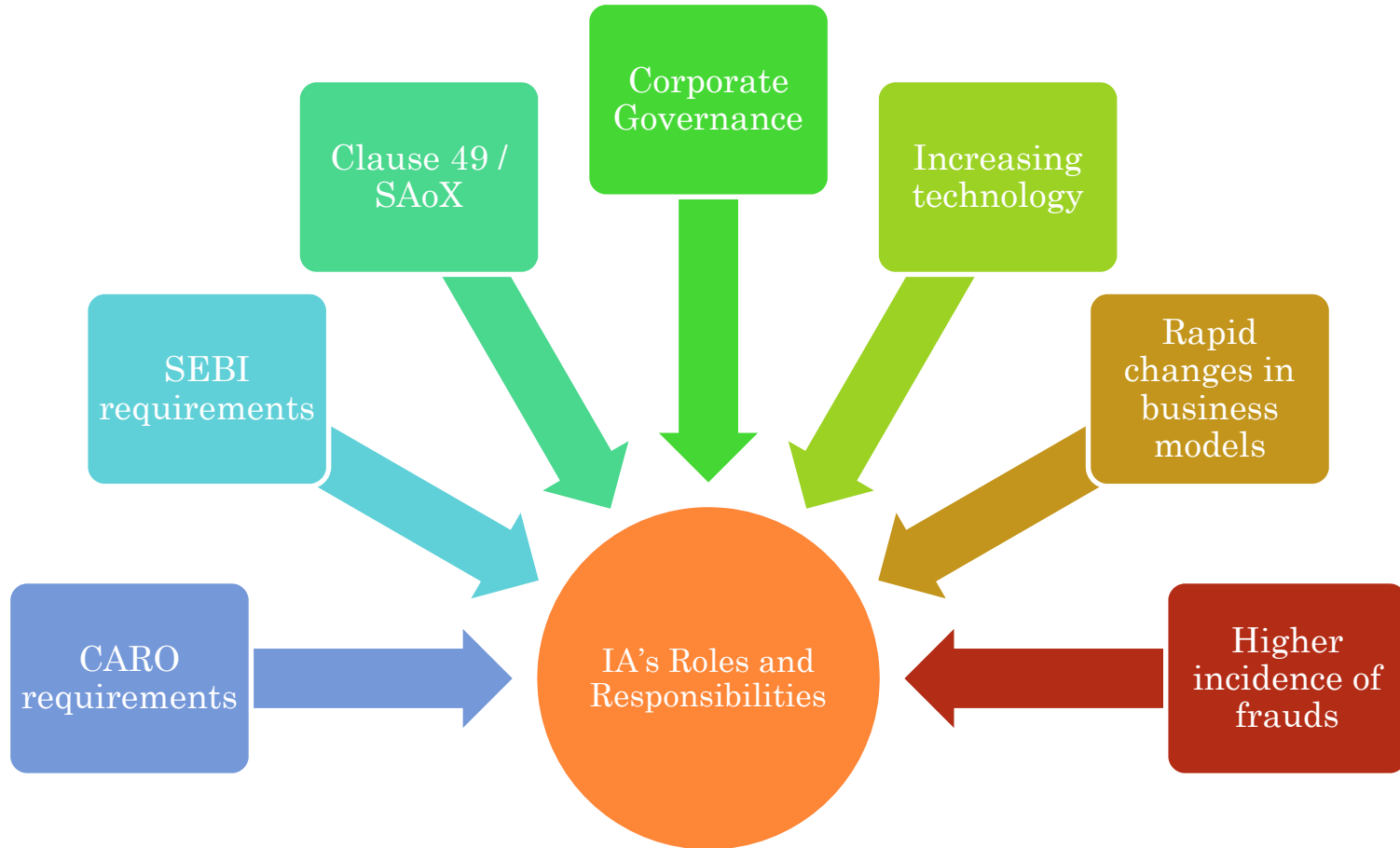
# INTERNAL AUDITOR

Chartered accountant's role in Corporate Governance as an Internal Auditor

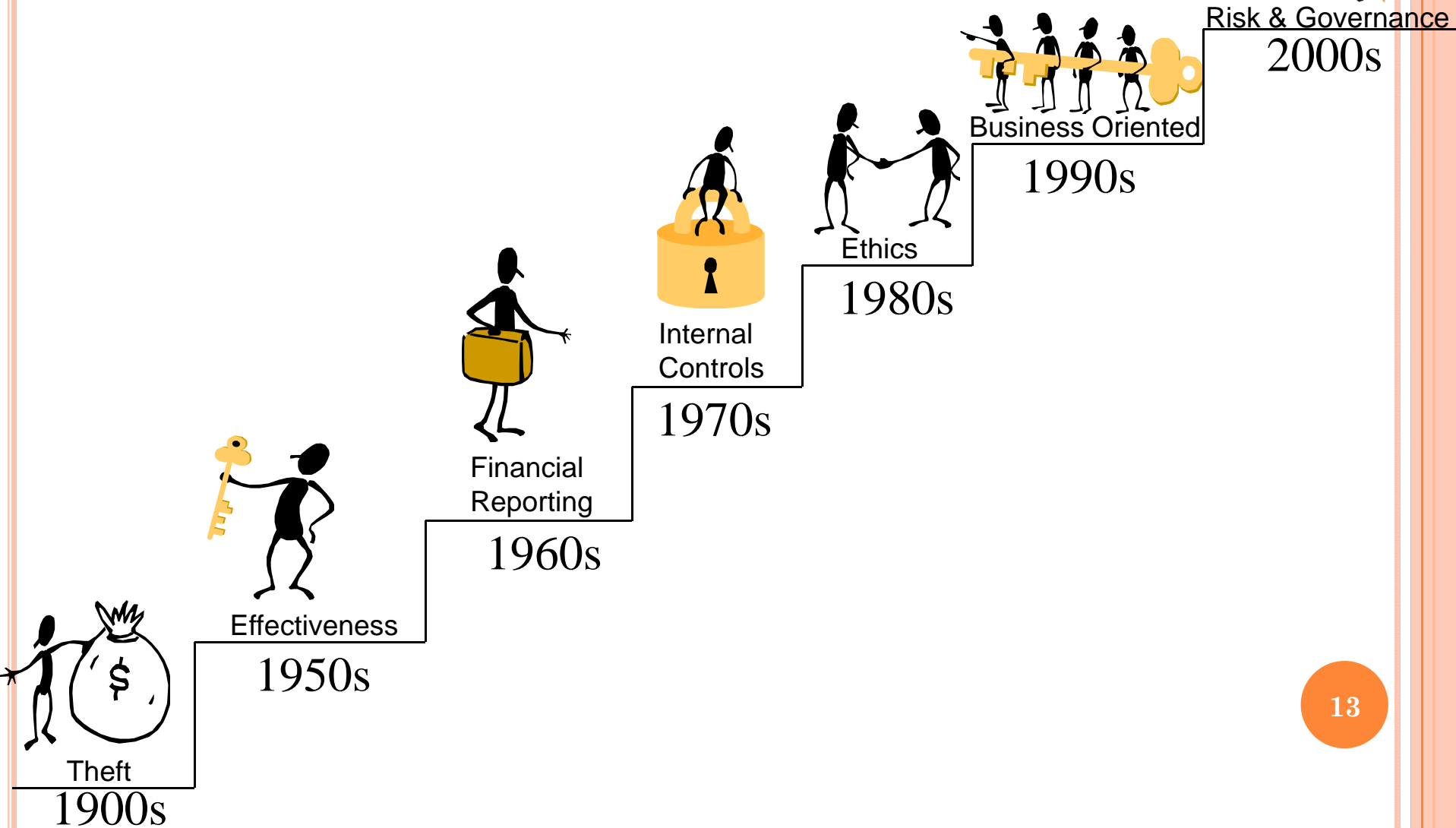


INTERNAL  
AUDIT HAS A  
ROLE TO PLAY  
MAINLY IN  
INTERNAL  
CONTROL AND  
RISK  
MANAGEMENT

# DRIVERS OF INTERNAL AUDIT'S ROLES AND RESPONSIBILITIES



# INTERNAL AUDIT FUNCTION...

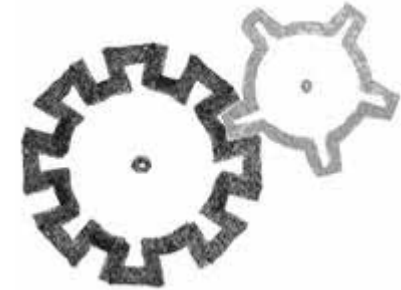


# PARADIGM SHIFT IN FOCUS OF INTERNAL AUDIT



## Areas where IA has a role

- Risk Management
- Effective Governance at all levels
- Audit Committee Charter
- Independence of Audit Committee
- Effectiveness of Audit Committee



IT IS BUT ONLY  
A COG IN THE  
WHEEL AND  
NOT A PANACEA  
FOR ALL ILLS...

# RISK MANAGEMENT

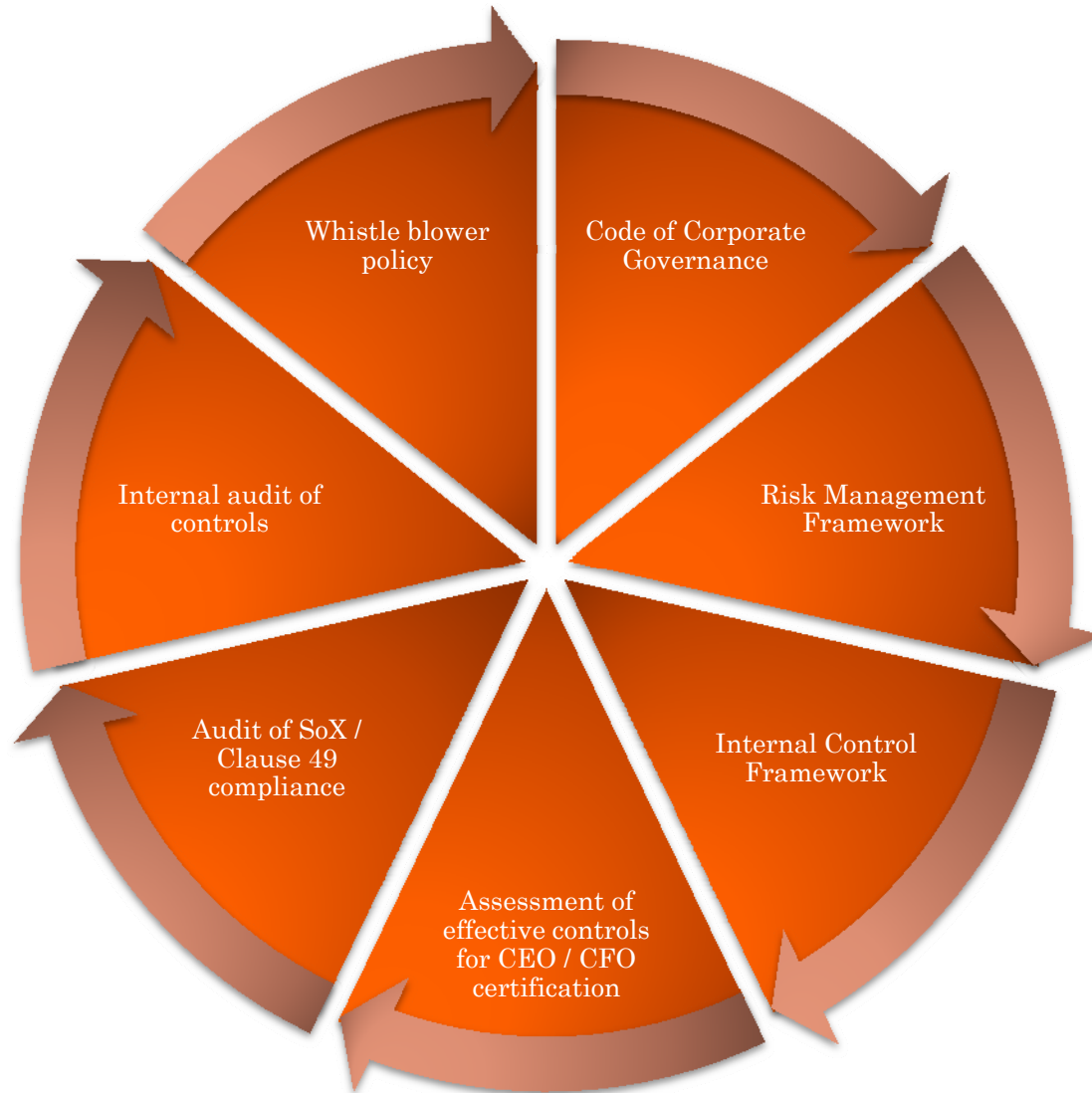
- Test of Design (TOD)
  - Whether risk management and controls are appropriate
- Test of Efficiency / Effectiveness (TOE)
  - Whether the controls implemented are effectively functioning in the organization
- Internal Control deficiencies noticed have been acted upon

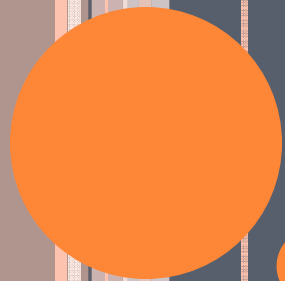


# EFFECTIVE CORPORATE GOVERNANCE...

- Ensure that
  - Standard Operating Procedures (SOP) and
  - Schedule of Authority (SOA)
    - have been drafted with CG being properly weaved in...
- When there are new business / non routine and significant transaction
  - Whether there is any need for modification to SOP and SOA in the eyes of good corporate governance
- Ensure IA function itself is independent and in spirit compliant with good governance requirements

# DETAILED AREAS WHERE IA CAN PLAY A ROLE...





19

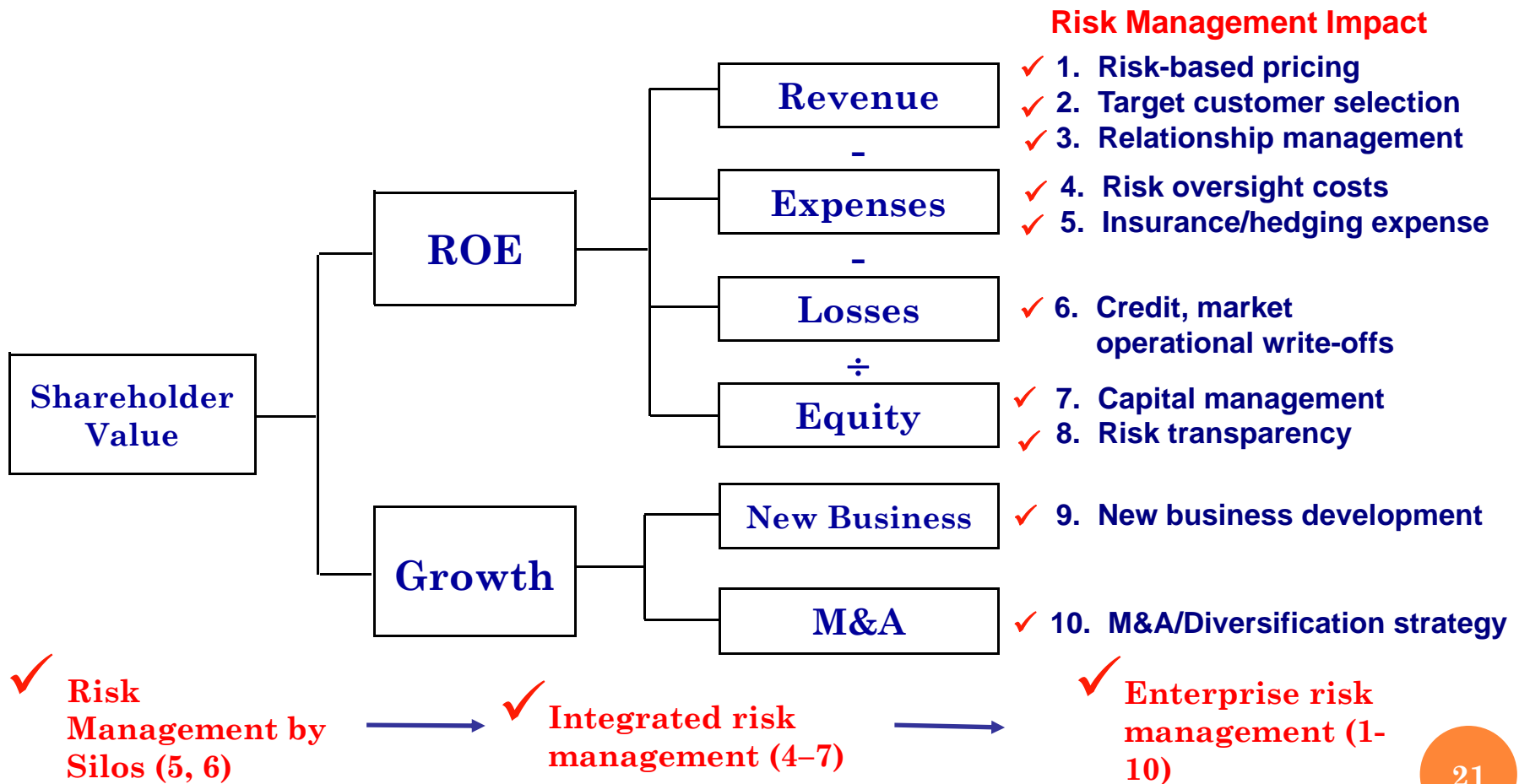
## CFO / CRO

Chartered accountant's role in Corporate Governance as a CFO / CRO

# CFO / CEO CERTIFICATION

- Ensure
  - Financial Statements
    - Do not contain materially untrue statement
    - Present a true and fair view
  - No transactions are fraudulent or illegal
- Own up the responsibility to establish and maintain internal controls for financial reporting
- Ensure Auditors and Audit Committee are appraised of any deficiencies in the design or operation of internal controls

# RISK MANAGEMENT TO ERM...IMPLEMENT AS APPROPRIATE...



Implementing appropriate risk management process for the entity

# RISK MANAGEMENT — WHAT IT SHOULD NOT BE...



# RISK MANAGEMENT — WHAT IT SHOULD NOT BE...



# RISK MANAGEMENT — WHAT IT SHOULD NOT BE...





# RISK MANAGEMENT — WHAT IT SHOULD NOT BE...



# RISK MANAGEMENT — WHAT IT SHOULD NOT BE...

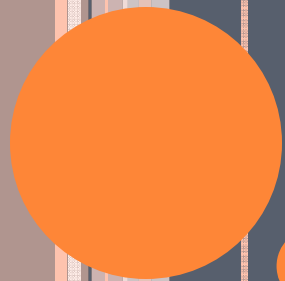


# TYPICAL HURDLES TO COMPLIANCE TO BE ADDRESSED...

- Lack of an enterprise-wide, executive-driven internal control management program
- Lack of a formal ERM program
- Inadequate controls associated with the recording of nonroutine, complex, and unusual transactions
- Ineffectively controlled post-merger integration
- Lack of effective controls over the IT environment
- Ineffective financial reporting and disclosure preparation processes
- Lack of formal controls over the financial closing process
- Lack of current, consistent, complete, and documented accounting policies and procedures
- Inability to evaluate and test controls over outsourced processes
- Inadequate board and audit committee understanding of risk and control

# WHAT A CA SHOULD DO AS A CFO / CRO

- Emphasize on Controls
- Ensure that Risks are highlighted and acts as a break to the speeding car...
- Present worst case scenarios as, these may become the best case scenario in a crisis ridden world!
- Have the guts to say “Emperor has no clothes”



29

## DIRECTOR ON BOARD

Chartered accountant's role in Corporate Governance as a Director

## CA SHOULD BRING TO TABLE...

- Strategic Thinking
- Analytical skills, appropriate professional experience
- Effective communication skills
- Understanding of the organization and the industry
- Cross industry / companies knowledge repository

# CA TO WORK TOWARDS BETTER WORK IN BOARDS

- Better and timely agenda papers
- Focus on ABC analysis of matters to be taken up
- Time for two way interaction
- Appropriate amount of effective time for meetings
- Ensure key matters are deliberated first – Follow the 80/20 Pareto's principle
- Balance what is brought to Board and what is left for management to handle
- Focus more on key matters which are complex and not the most obvious and generally left to few to understand!



## WHAT A CA SHOULD DO AS A DIRECTOR

- Ensure powers delegated are not over-riding
- Have an independent means of reality check
- Get independent expert advice on complex workings / deals
- Do not try to give up on “common sense”
- Enable “Whistle Blowing”
- Give heed to the lone voice of dissent more carefully



# QUESTIONS TO ASK THE AUDITOR

- Especially, if you were the Audit Committee Chairman, ask the auditors the following questions:
  - If the auditor were solely responsible for preparation of the Company's financial statements, would they have been done differently, in either material or non-material ways?
    - If differently, the auditor should explain both management's argument and his own.
  - If the auditor were an investor, would he have received information essential to understanding the Company's financial performance during the reporting period?
  - Is the Company following the same accounting procedures the auditor would if he were CEO?"

Warren Buffet

# Quote

- *“Sustainable progress calls for progress for all members and components of society.*
- *Fragmented progress is temporary and often illusory.*
- *It is only when all the elements of the environment are taken care of that an individual or organization can hope to consistently succeed in its ventures”*





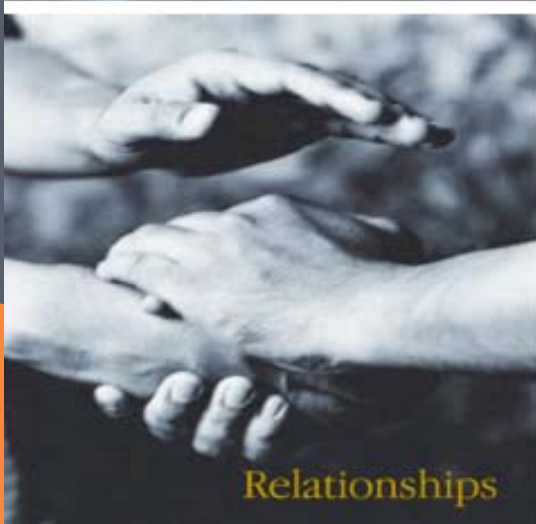
Discipline



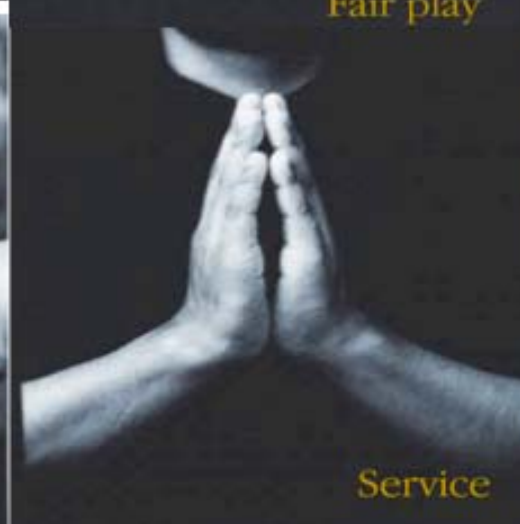
Fair play



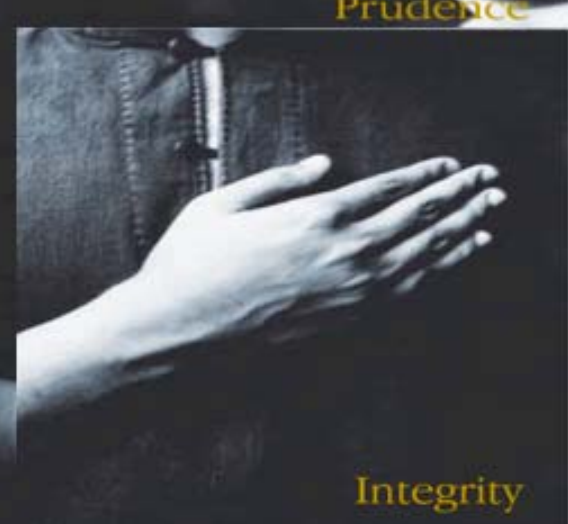
Prudence



Relationships



Service



Integrity

THANK YOU