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Auditors as Prime Stake Holder in Corporate Governance Process

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Abstract

The corporate governance is a process of reflecting the companies fairness, transparency, and accountability relating to the expenses and income of an organization as an independent personality with reference to its board of directors in the eyes of law and in relation to the stake holders claim in the business of corporate world and in which the auditor will become the key to Corporate governance has emerged as a big issue in corporate sector due to the scams and scandals that are taking place to maintain equilibrium between economic and public goals individually and collectively.
The present paper is concerned with the role of Auditors as part of prime stake holders in corporate governance process and the importance of each internal and external Auditor in detection and prevention of fraud.

***Keywords**: corporate governance, stake holders, Auditors, fraud, detection, prevention*

1. Introduction

The auditor as one among the prime stake holders is a person who is in charge of the accounts and who does audit of the accounts and who examines with a view of finding the errors and faults in the process of accounting and ascertain of profit or loss resulting from the day to day business carried on by the Board of Directors and management of the organization.
In the process of corporate governance an auditor who is independent of the organization and as a prime stake holders will always try to evaluate accounts and other agreements relating to the business to the 100% fairness and genuineness and upon whose opinion the board of directors will take a decision

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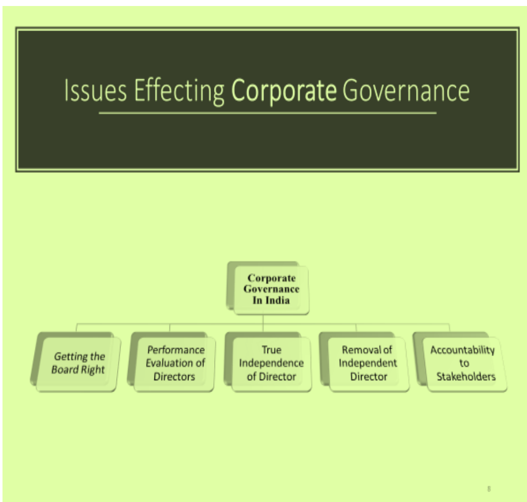
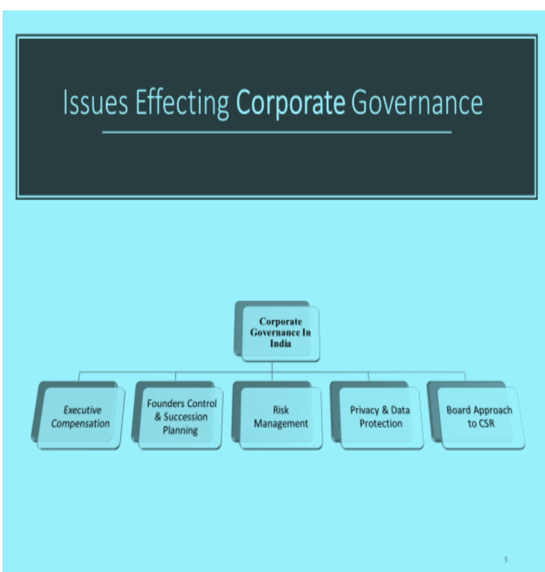
regarding entering a business or continuity of business with a aim to profit maximization and service orientation to the customers or end users

2. The Role of Law in Corporate Governance

1. Not to supplant but supplement
2. Law cannot be a substitute for the code of good Corporate Governance, and vice versa
3. Law alone can hardly imbibe ethics in corporate functioning
4. Law states a minimum standard of conduct but not the whole duty of man
5. Mere compliance with law does not make a good citizen or a good Company;
6. Law alone does not contribute to enhancing shareholder value.
7. Law plays a complementary role for good Corporate Governance
8. In liberalized and deregulatory environment, non-statutory code of best practice is imperative





3. Importance of Research

The research of auditor as prime stake holders has acquired prime importance with the fact that the modern business which is undergoing scams and frauds and which is having many problems with the transparency and genuineness in disclosure norms according to corporate governance should be able to deal with the prevention of frauds and in exclusion of the scams with the work executed by the external or internal auditor of the organization.

The auditor in the company will have to work and place on record the facts of business and should be having expert knowledge in dealing with the financial position of the company and in arranging the funds required by the company and in bringing out the balance sheet and financials of the company at the end of each financial year and in compilation of accounts as required by the income tax department that need to be filled and filed yearly as per statutory norms of the law of the land to which the company belongs.

The auditor of the company who is an internal or external auditor is appointed by board of directors annually in an annual general meeting which is passed through the adoption of a board resolution by filling requisite forms in MCA portal and by paying requisite fee applicable

Global Trends in Corporate Governance

1. Asia: Independent Directors are a requirement for listed companies in all Asian economies, where most require at least 1/3rd of the Board to be independent. The 2012 Singapore corporate governance code recommends most Independent Directors when the chairman of the Board is not independent.
2. US: The Council of Institutional Investors (CII), Corporate Governance Policies state that at least 2/3rd of the directors should be independent.
3. Europe: European commission urges member states to have enough independent non-executive or supervisory directors on Board.
4. Europe: The European Commission has proposed legislation that would require nonexecutive directors to be 40% women by 2020, up from 16.6% in 2013.
5. France: The parliament adopted a bill to have 40% female Board representation by 2017 in public companies having a turnover of at least 50 million Euros and staffing more than 500 workers
6. Germany: In November 2013, Germany's Christian Democrats and Social Democrats agreed on a gender quota on supervisory Boards where, issuers would be required to have women comprise 30% of nonexecutive directors by 2016.
7. Japan: In early 2014, Japanese Prime Minister announced the goal of increasing the percentage of women in executive positions at Japanese companies to 30% by 2020.
8. UK: UK businesses had voluntary targets first set in 2011 i.e. to have at least25% women the Financial Times Stock Exchange) Boards by 2015.
9. Canada: At the Federal level, two bills are currently being tabled which will impose a 40% quota for female Board members of public companies and other regulated entities such as banks and insurance companies.
10. Brazil: A bill pending in the Brazilian Senate would impose a 40% female quota on the Boards of state-owned enterprises by 2022.

    Regulatory Framework

- Regulatory framework on corporate governance

  The Indian statutory framework along with the global framework has, by and large, been in consonance withbest practices of corporate governance. Broadly speaking, the corporate governance mechanism for companies in India is enumerated in the following enactments with regulations and guidelines for listing agreement:

1Provisions relating to board constitution as per companies act, along with the meetings and all related matters like general meetings, audit committees, along with details on disclosure of related party transactions, in financial statements, etc.

2. **Securities and Exchange Board of India (SEBI) Guidelines:** SEBI is a regulatory authority having jurisdiction over listed companies and which issues regulations, rules and guidelines to companies to ensure protection of investors.

3. **Listing Agreement of Stock Exchanges:** the companies involved in acceptance and offer of equity and preference shares are required mandatory to be listed on the stock exchanges.

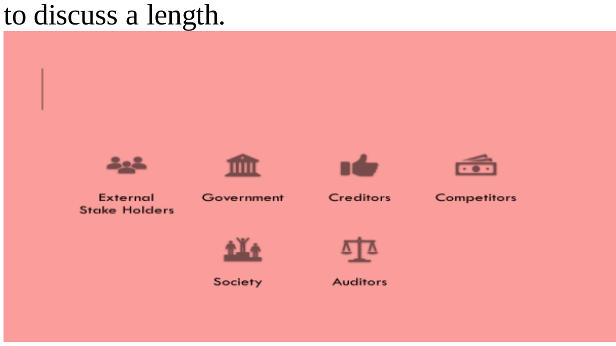
4. **Accounting Standards issued by the Institute of Chartered Accountants of India (ICAI):** ICAI is an autonomous body, which issues accounting standards providing guidelines for disclosures of financial information as per companies act pertaining to financial statements and disclosure of information in financial statements in accordance with the accounting standards set from time to time.

5. **Secretarial Standards issued by the Institute of Company Secretaries of India:** This standard gives clarity and explicit explanation on standards to be followed by companies and which are approved by the government of India and which are needed to be followed by every company in respect of financial statements and its disclosure.

The standards are to be followed by all listed companies while going in with the issue of shares and debentures which must be as per standard procedure in the eyes of law

4. Stake Holders with Specific Reference to Role of Auditors as per stake holder

The two pictures here under give an idea of shareholders which can classified as external and internal shareholders and the external shareholders include the government and Auditors on whom we are going to discuss a length.



Shareholders

- The intermediaries and institutional shareholders are classified as one while the individuals who form part of the market and who work in their individual capacity are classified as other form of shareholder as per articles of association which form the basis for company to operate in the market.
- **Board of Directors**
  The Board of Directors are appointed by first director who is in turn appointed by promoter of the company to carry on the business and to run the day to day operations of the business. The board of directors will give the directions on which the management and key managerial personals act and get work done by the workers or employees who are all part of the organization.

Employees

- The employees are the people who are form part of the organization and who work with a motive and aim for success in every step they take
  Employees are the people with skill of various nature and who are the base and foundation on which the organization is built as per corporate governance.

Creditors

- The people who form part of the lending process for a organization to build around and who are the persons who have the ability to fund projects and key steps in the projects as per the requirement of the business for a certain amount of interest and return as per agreed terms and conditions for a prescribed period.

Customers

- In a business customer look for better quality in terms of goods and services within affordable price and range in the corporate governance

. **Business partners**

- Business partners forman important part among Stake holders in Corporate Governance as they aim at working with their partners for upholding its promises and commitment as part of the business.

Government

- Government plays a very vital role to provide healthy environment to mobilize large capital and investment from the investors and to maintain regularity under corporate governance norms.

Accountants

- In the process of corporate governance accountants play very vital role in decision making process including financial reporting from time to time and annual finalization of account in accordance with Board of Directors and Management.

Competitors

- In every business competition is inevitable as it exists according to stake holders in corporate governance it should be relatively fair and justified in accordance with corporate governance.

Society

- Stake holders in Corporate Governance want to ensure that its business operations are fair to all related parties in line with business philosophy and as per the corporate social responsibility norms applicable in india and all over the world

Auditors

- The auditor is a person who is qualified as chartered accountant and holds a certificate from ICAI and has been allowed to practice as a chartered accountant
- The first auditor of a company is appointed within 30 days from the date of registration of a company or incorporation of the company by the board of directors or promoter
- The appointment and re-appointment must be taken up in the annual general meeting of the board along with the finalization of audited accounts of the Company.
- According to the corporate governance the role of Auditor is not limited to presentation of a good financial report which should be fair and present true facts regarding the financial position of the company from the point of view of stake holders including the share holders, creditors, Customers, Business Partners and Management.

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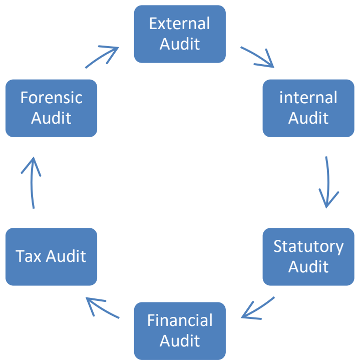
Types of Audit



- ➢ The auditor's Report should bring out the statistical analysis of the company on which people can rely upon at all levels and in which report the measures taken by auditors should be stated the efforts in the areas of detection, prevention and reporting of fraud.
- ➢ In the present scenario of business scams such as Satyam scam and other scams auditor as an external and independent party in the process of corporate governance has to act with a responsible role to play in prevention of frauds and auditing failures that are committed by accounts and internal auditors
- ➢ The auditor in respect of fraud must examine the financial, accounting, and other kind of operations concerning the services and present a document a true picture of the company which is free from fraud in the contest of corporate governance practices
- ➢ The responsibilities concerning fraud prevention in an organization are divided between the top management (executive board), Auditors, and Internal audit team
- ➢ An important action in fraud prevention and detection can be carried forward by the establishment of an appropriate internal control system with specified task exactly with this responsibility. It should aim to

i. Respect the principle of separating functions (no function should allow an employee to execute a whole cycle of transactions.

ii. Proper external party investigation of the employees

- Especially in the case of senior and authority positions that have access to the management and involved in the process of financial reporting.

iii. In business a complex assessment of fraud and its prevention can help the management to better understand the unique risks that their company faces, to identify the gaps and in their controls, and help in formulating a plan to identify the appropriate resources available and procedures of control.

iv. In order to prevent fraud, we should build a stringent attitude towards fraudsters. As an important step in creating intolerance towards committing of fraud is to act consistently when an economic irregularity is discovered

v. Last but not the least important is reaction of a company when detecting a fraud acquires importance, as it should act in a manner of publicly disclosing the fraud and professional transgression.

The auditor report as per companies' act which is submitted to the members of the company and the board in broad senses shall contain the financial statements as examined by him based on the accounts audited by him and which shall be presented and adopted in the annual general meeting of the company and which includes among others

a) The auditing and accounting standards that are practiced in the company
b) Matters which are required to be included in the report as per provisions of the act
c) The report must also consider and present the position of the company as at the end of financial year in case of companies and countries who follow the accounting year as base for financial year

and calendar year who follow the year from 1st January of the year and including 31st day of December every year

d) The auditor report must also high light the fact that all necessary information as required is sought and made available by the employees of the organization and management of the organization from time to time as per the requirements of the audit process
e) The report must state the company has maintained required books and ledgers as per the requirements of the audit during that particular year and in the manner prescribed by the law in force from time to time
f) If any branch exists or subsidiary company exists, the report must clear specify if proper books are maintained at the branch level or subsidiary level by the competent persons or not
g) The report must also specify clearly if the financial statements are in accordance with the standards specified for both main and subsidiary or branch level companies are maintained or not
h) The report must also specify the assets such as fixed assets and current assets as per statements at head office and branch level as per norms of the company
i) The report must also specify the current and long-term liabilities of the company separately at each branch level if it has multiple branches all over the India and abroad and as a single unit with separate divisions in one schedule as per the policies of the company
j) The head office and branch office if exists in a separate country requires to follow a multi-level currency for day to day transactions must be clearly specified as per existing standards practiced in those countries around the world.
k) The report must also specify the deprecation schedule practiced by the company for each accounting year and any change in the schedule from previous year to current financial year
l) The report must also specify the necessities of secretarial audit and need for such an existing norms that are applicable in the due course of conducting such audit.

5. Hypothesis

The following hypothesis can be concluded

i. The role of Auditor can be effective when there is presence of report with no Error or Marginal Error in disclosure and voluntary disclosure in corporate annual report.
ii. The role of auditor is compiled on the accuracy in the audit and reporting including compliance of all statutory norms as per existing company law in any country.

6. Methodology

The methodology used to study auditor as a prime stake holder is based on his proficient and skills used in the process of starting an audit or in completing an audit and in reporting of any mistakes or faults and in build a transparent accounting system which will be upto the expectations of the company in meeting the demands of the stake holders as well as the statutory regulatory authorities around the world

7. Recommendations

a) The external auditor who is regarded as one among the prime stake holders along with independent directors should have control on the crucial aspects of managing a business and should work toward achieving it..
b) Regular meetings between the stake holders and management should happen in order to strength the company compliances and give auditor a free hand in dealing with any irregularities in the company
c) The auditor should advise on the financial planning of the company in order to make the available resources to be utilized to maximum extent possible

d) The auditor should advise and arrange the best possible resources for borrowing of funds and should make sure that it is used to satisfaction of the company management and stake holders.
e) The auditor must make sure that he has gone through all the available records and examined them during audit and if any information is required he should ask for them to be provided by the concerned
    1. The auditor should highlight all mistakes in his annual audit report along with the report on the strengths and weakness of the company financials and performance according to company law standards

8. Conclusion

- The view expressed in a recent conference of internal auditors that the accounting profession has not changed drastically in relation to the other sectors like engineering etc. and the view that the control and compliances form a greater part while leaving the ethical values has been taken note and required changes are being brought out in these areas.
- The study can conclude Importance of Corporate Governance and the role of auditors in the process of prevention and detection of errors.
- The auditor should prepare working papers which are sufficiently complete and detailed to provide an overall understanding of the audit
- Corporate governance will be successful if everybody contributes their share with responsibility as it represents the value framework, ethical framework, and moral framework which forms the basis for business decisions.
- Corporate governance has grown steadily over the years due to public awareness and interest as public has realized the importance of globalization of business due to the opening of economies worldwide.
- The globalization of business is done to enhance competitiveness for sustainable development in the present environment of free and fair trade between countries on the global platform.

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