Accounting and Auditing a part of broader framework of corporate governance: A perspective of Indian Auditors

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Abstract:

The Auditing profession in India has gone through a lot of change in the last decades. Audits are done to ensure that the accounts of a business show a true and fair view. On the other hand corporate governance also requires balancing the interests of the stakeholders. Auditing ensures the truth and fair view of the financial statements, which are to be presented to the stakeholders. Investors, shareholders invest in the company by relying upon the audited financial statements. In India rules regarding corporate governance have evolved over a period of time. Also after the passing of the new companies act 2013, major changes will take place with respect to the auditing profession.

The main objective of this paper is to study the connection between the corporate governance and the role of the auditors and the dynamics of the auditing profession especially with respect to the Indian auditors.

The methodology used is through a literature review of research articles, and other related literature to study the changes the rules regarding the corporate governance. Also a survey was conducted with respect to select auditors to find out their views on the influence of corporate governance on auditing profession in India.

Key words: Corporate Governance, accounting, auditing. Audit committee, ethics

Introduction

Financial Audits are carried out for ensuring the truth and fairness of the financial accounts. The financial statements are considered to be reliable post audit and shareholders, investors and other stakeholders can rely on them. Corporate governance on the other hand ensures the balance between the stakeholders. Hence both corporate governance and financial audits work for the same cause. And therefore it is essential to understand the connection between them. It is essential to study the influence on corporate governance on auditing and vice a versa. The paper tries to identify that whether accounting and auditing will become a part of corporate governance. Therefore a survey was conducted of auditors in India to understand the aspects of corporate governance with respect to accounting.

The paper therefore tries to understand the connection between the two.

Review of literature

In a particular study of Egyptian companies, it was revealed that strong corporate governance is associated with more favorable acceptance judgments than weak corporate governance. The results suggest that the voluntary adoption of corporate governance practices by the companies enhance the quality of financial reporting process and, hence affects auditors’ decisions. (Ibrahim El-Sayed Ebaid, 2011)
A study of the corporate governance and accounting environment in China suggests heavy government involvement within underdeveloped institutions. The Chinese government has made impressive progress in developing the corporate governance and accounting environment for the market economy however China’s unique institutional setting is likely to affect how the imported concepts are interpreted and implemented. (Huiying Wu, Chris Patel, 2015)

In a literature survey it is concluded that there is a lack of defining the relationship between the sustainability concept and accounting and potential solutions to overcome the problems which create challenges for accounting and accounting professionals. (Arzu Özsözgün Çalışkan, 2014)

In another study there is an association noticed between the corporate governance mechanism and the timeliness of the audit reports. The investors in the stock market rely on the financial statements, the value of the financial information declines due to audit delays and the corporate governance mechanism ensures in the reduction of the audit delays. (Mishari M. Alfraih, 2016)

Another study reveals that the Malaysian Code of Corporate Governance (MCCG) 2007 influenced auditor selection due to the restructuring of corporate governance tools, such as ACs and internal audit functions. (Azrul Ihsan Husnin, Anuar Nawawi, Ahmad Saiful Azlin Puteh Salin, 2016)

A study reveals that larger boards are associated with a greater depth of intellectual knowledge, in turn helps in improving decision making and enhancing the performance. At the same time the study also indicates that return on equity and profitability is not related to corporate governance indicators. The results also reveal that the CEO duality is not related to any firm performance measures for the sample firms. (Akshita Arora Chandan Sharma, 2016)

Regression analysis results in a paper show that firms with strong governance structure exhibit higher value-relevance of accounting information. The study also show that firm-specific economic variables are important determinants of the value-relevance of accounting information. (Ahsan Habib Istiaq Azim, 2008)

In another paper the results show that the better corporate governance structure in terms of board independence is positively associated with accounting conservatism while management ownership is negatively associated with it. (Nor Farizal Mohammed Kamran Ahmed Xu-Dong Ji, 2017)

In another paper it is observed that board independence is the sole effective mechanism in detecting financial reporting fraud. The firms committing accounting fraud have a lower percentage of independent directors on the board and fewer non-executive and independent directors on the audit committee than the matched control sample. (Romano, G., & Guerrini, A. 2012).

Methodology:

A questionnaire was administered to 50 auditors in the City of Pune, in India. Pune is an important information technology, automobile and educational hub. There are many international companies operating in the city of Pune. Hence the auditors of these companies are exposed to the latest rules and regulations related to corporate governance. Chi square test is used to test the hypothesis. There are four hypotheses set:-

A. H0: The corporate governance has not significantly become important due to the financial Scams.
H1: The corporate governance has significantly become important due to the financial Scams. Financial scams and scandals posed a question mark on the financial reporting of companies. The authenticity of the accounting information which is audited was in question. Corporate
governance stresses on the transparency of the financial reports and the ethics towards the stakeholders.

B. H0: Audit committees do not play an significantly important role in monitoring the auditing process.
   H1: Audit committees do play an significantly important role in monitoring the auditing process.
   The audit process is monitored by the audit committees. These form an important aspect in the corporate governance process.

C. H0: Accounting and auditing will not significantly become components of a broader system of corporate governance.
   H1: Accounting and auditing will significantly become components of a broader system of corporate governance.
   Accounting culminates in financial reporting, which involves dissemination of information to the various stakeholders such as shareholders, creditors as well as the future investors. Thus the outcome of accounting to sharing information in an ethical and transparent manner. Auditing involves the verification of the accounting information quantitatively i.e with respect to the financial data and qualitatively which adherence to the accounting principles and corporate laws, which in turn relates to the information disclosure to the stakeholders in a true and fair manner. And corporate governance is for better transparency and ethical information sharing.

D. H0: Auditor will not be expected to verify the ethics of the company
   H1: Auditor will be expected to verify the ethics of the company
   Ethics of the company means the auditors will be expected to verify how ethically the financial reporting is done and the financial information is processed. Here, ethics relate to the information sharing in the financial reports. Auditing ensures the truth and fairness of the accounts and reports, and the company will be ethical if is accounting for the transactions and reporting the financial information in a true and fair manner.

Scope and limitation of the study:

The study tries to connect the concept of corporate governance and accounting and auditing. Both accounting and auditing exist for many years, the objective of the corporate governance is also has its immense importance in todays world. It is important to study the relevance of the accounting and auditing for the corporate governance. Corporate governance recognizes and emphasizes on the ethics and transparency, both are achieved through accounting and auditing as both relate to the disclosure of accounting information.

Description of Data

A likert’s scale questionnaire was prepared. The questionnaire was administered to 50 auditors in the city of Pune, in India. The city of Pune has industries in the field of automobile, information technology, banks and other financial institution. The auditors have exposure to the audits of companies from different sectors. The data was then analyzed using chi square test.

Hypothesis

A. The corporate governance has become important due to the financial Scams.
   H0 : The corporate governance has not significantly become important due to the financial Scams.
   H1: The corporate governance has significantly become important due to the financial Scams.
Table 1

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<tr>
<td>Chi-Square</td>
<td>36.240a</td>
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<td>df</td>
<td>3</td>
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<td>Asymp. Sig.</td>
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Since the $P = 0.000$ which is less than 0.05. H0 is rejected and H1 is accepted. Thus corporate governance has significantly become important due to the financial Scams.

B. Audit committees play an important role in monitoring the auditing process.
H0: Audit committees do not play an significantly important role in monitoring the auditing process.
H1: Audit committees do play an significantly important role in monitoring the auditing process.

Since the $P = 0.000$ which is less than 0.05. H0 is rejected and H1 is accepted.

Table 2

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<tr>
<td>Chi-Square</td>
<td>45.520a</td>
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<td>Asymp. Sig.</td>
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Since the $P = 0.000$ which is less than 0.05. H0 is rejected and H1 is accepted. Thus Audit committees do play an significantly important role in monitoring the auditing process.

C. Accounting and auditing will become components of a broader system of corporate governance.
Ho: Accounting and auditing will not significantly become components of a broader system of corporate governance.
H1: Accounting and auditing will significantly become components of a broader system of corporate governance

Table 3

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<td>Chi-Square</td>
<td>25.480b</td>
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<td>Asymp. Sig.</td>
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Since the $P = 0.000$ which is less than 0.05. H0 is rejected and H1 is accepted. Hence Accounting and auditing will significantly become components of a broader system of corporate governance

D. Auditor will be expected to verify the ethics of the company
H0: Auditor will not be expected to verify the ethics of the company
H1: Auditor will be expected to verify the ethics of the company
Table 4

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<tr>
<td>Chi-Square</td>
<td>36.640[^b]</td>
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<td>Asymp. Sig.</td>
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Since the $P = 0.000$ which is less than 0.05, H0 is rejected and H1 is accepted. Thus it can be concluded that Auditor will be expected to verify the ethics of the company.

**Analysis**

**Descriptive Statistics**

In the brief discussion with the auditors the following can be the analysis drawn:-

A. The corporate governance has become important due to the financial Scams.
B. Audit committees play an important role in monitoring the auditing process.
C. Accounting and auditing will become components of a broader system of corporate governance.
D. Auditor will be expected to verify the ethics of the company.

Table 5

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<tr>
<td>N</td>
<td>Mean</td>
<td>Std. Deviation</td>
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<td>A</td>
<td>50</td>
<td>6.0200</td>
<td>.76904</td>
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<tr>
<td>B</td>
<td>50</td>
<td>5.5800</td>
<td>.70247</td>
</tr>
<tr>
<td>C</td>
<td>50</td>
<td>6.1400</td>
<td>.57179</td>
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<tr>
<td>D</td>
<td>50</td>
<td>5.4800</td>
<td>.86284</td>
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In case of the statement A above, The mean 6.2692 which is more than 4 hence it shows that the respondents have on an average agreed to the statement. The respondents believed that as a result of the scams and scandals, the regulators, shareholder and other stakeholders want more transparency in the reporting. As a result of this corporate governance has become more and more important. Hence one can infer that due to financial scams and scandals corporate governance have become more important.

For the statement B, The mean 6.2308 which is more than 4 hence it shows that the respondents have on an average agreed to the statement. Audit committees are a part of the entire corporate governance process. Due to Corporate governance, audit committees play an important role in monitoring the auditing process.

For the statement C above the mean 6.0385 which is more than 4 hence it shows that the respondents have on an average agreed to the statement. Corporate governance plays an important role in the ethics towards the stakeholders. The end result of the accounting process is maximum disclosure to the shareholders and other stakeholders. Auditing on the other hand deals with the credibility of the accounting information, auditing according to many may not grant the guarantee to the accounts, but deals with assurance of the accounting information. Thus many respondents believed that accounting and auditing will become a part of the corporate governance.
The statement D, Auditor will be expected to verify the ethics of the company, the mean 4.6538 which is more than 4 hence it shows that the respondents have on an average agreed to the statement, however they believed that this will happen in the future. The respondents are more or less distributed over this. Those who agreed believed so because they believed that indirectly the auditor is concerned with the ethics of the company, whereas those who disagreed believed that the auditor only audits the company and not responsible for the ethical working of the company.

Findings:

Financial scams in the past led to the requirement of companies following transparency and ethics in their financial reporting, the shareholders and the other stakeholders insist on the companies to report the financials in a true and fair manner. In the current paper it was revealed that the financial auditors believe that the importance of corporate governance has increased because of the scams. The responsibility is on the shoulders of the shareholders regarding the assurance that the financial information is displayed in an ethical manner. Audit committees play an important role in the audit process as a result of the importance of the corporate governance. Due to corporate governance transparency in reporting is required hence accounting and auditing are a part of the corporate governance. There were a few who disagreed because they believed that accounting and auditing existed even before the concept of corporate governance was legalized. However the majority of the respondents believed that agreed that now accounting and auditing and consequently financial reporting are now embedded in corporate governance.

Auditors believed the respondents believed that is responsible to report on the materiality, truth and fairness, and compliance to legislations and reporting standards, he or she cannot in any way verify the ethics of the company as ethics being a very big term. However they believed that they are in some manner connected with the ethics as far as financial reporting is concerned. Thus they believed in the future they will be responsible for the ethical disclosure of financial information of the companies.

Conclusion:

It can be concluded from the literature review that accounting information is strengthen with the help of corporate governance. Ethics for the stakeholders is the true and fair information published by the companies. Hence if the auditors are assuring the truth and fairness of the books of accounts they are ensuring the ethics of the company. Furthermore the auditors believe that the auditing and accounting will become a part and parcel of corporate governance. Thus the hypothesis establish the fact that scams and scandals have caused the emergence of corporate governance, audit committees play an important role, further the corporate governance will ensure a better accounting information and auditing is done for better disclosures the accounting and auditing will be done as a part of corporate governance.

Bibliography


