

12.29 hrs.

## COMPANIES (AMENDMENT) BILL

(Insertion of new sections 224A, 224B and 224C) by Shri Chintamani Panigrahi.

MR. DEPUTY-SPEAKER: We take up further consideration of the Bill moved by Shri Chintamani Panigrahi. 1 hour was allotted for this. We have taken 38 minutes. There is a balance of 22 minutes. Shri Daga, who was on his legs, may continue his speech.

श्री मूल बन्द डगा : (पाली) : संसद में कुछ ऐसे भी सदस्य हैं जिनसे संसद की भाषा बढ़ती है और दृजत भी सदन की बढ़ती है। मैं श्री पाणिग्रही जी को बधाई देता हूँ कि वह एक बहुत ही अच्छा विधेयक सदन में लाये हैं। यह विधेयक 1971 में पेश किया गया था। उसके बाद से कम्पनी कानून में काफी संशोधन हो चुके हैं। संशोधन आ जाने के बाद माननीय चिन्तामणि जी भी यह चाहेंगे कि इस बिल के अन्दर सरकार ने कुछ संशोधन कर लिये हैं इसलिये वह इसको शायद वापस लेने की बात सीधे, मंत्री जी के प्रापण के बाद। लेकिन एक बात कहना चाहता हूँ कि हिन्दुस्तान के अन्दर हमारी नीति यह है कि देश में कुछ आवश्यकियों के पास दीलत जमा न हो जाय। समाजवादी समाज लागे की जो भाषना है उसको ध्यान में रखते हुये आज भी देश में कुछ मोनोपली हाउसेज हैं जिनके पास अपार दीलत है। तन्नाम टेक्सेज लगाने के बाद भी उनके पास पैसा बढ़ता ही जाता है। यह स्पष्ट करता है कि कहीं न कहीं कम्पनी है। मेरे खयाल में जो पैसा बढ़ता है उसका एक कारण बार्टंड एकाउन्टेन्ट्स हैं वह अवेटर्स हैं। अगर वह लोग ठीक से अपना कर्तव्य अदा करते तो देश में कम्पनियों

के पास इतनी दीलत नहीं होती। बनील लोग भी गुनाहगार हैं, लेकिन उनसे ज्यादा गुनागार वह हैं जो बकीलों को बिगाड़ते हैं।

15.31 hrs.

[SHRI ISHAQUE SAMBHALI in the Chair]

समापति जी, कुछ कम्पनियों के पास बहुत ज्यादा पैसा बढ़ गया है। इसके फल में मैं इकोनामिक टाइम्स से कुछ अंश पढ़ना चाहता हूँ।

"Since the auditors are the only watchdogs of the funds of the investing public and shareholders, and *ipso facto* the companies resources the excessive concern about the practices and precepts appears to be reasonable. The public in general, and investing community in particular, expects a very high standard of propriety-cum-efficiency in audit in the country. The report of the *ad hoc* Committee of the Institute of Chartered Accountants of India admit it. The general trend of the review received by the Committee indicates that there might be a certain amount of concentration of audit."

मेरे कहने का मतलब यह है कि कुछ लोगों के पास दीलत जमा न हो अगर बार्टंड एकाउन्टेन्ट्स अपनी ऐफीसिंसी और इंटिग्रिटी के आधार पर काम करते। सरकार ने कई जगह इस बात की कोशिश की है कि कुछ लोगों के पास ही पूंजी जमा न हो, क्योंकि पूंजीवाद प्रजातन्त्र पर हामी हो जाता है। और वह इस प्रकार कि जब उनके पास अधिक पूंजी हो जाती है तो वह लोगों को करंट कर सकते हैं। इसलिये आपने एम०आर० टी० पी० ऐक्ट लगाया। उसके बाद भी कम्पनियों के पास पैसा बढ़ रहा है और यह बार्टंड एकाउन्टेन्ट्स की बकह ते ही बढ़ रहा है। इस काल को रोकने के लिये कम्पनी ला में कुछ संशोधन

## [श्री मूल चन्द डागा]

किये गये। मैं सेक्शन 224 (ए) की तरफ आपका ध्यान दिलाना चाहता हूँ :

"In the case of a company in which not less than 25 per cent of the subscribed share capital is held, whether singly or in any combination, by—

- (a) a public financial institution or a Government company or Central Government or any State Government, or
- (b) any financial or other institution established by any provincial or State Act in which the State Government holds not less than 51 per cent of the subscribed share capital, or
- (c) a nationalised bank or an insurance company carrying on general insurance business,

appointment or re-appointment at each annual general meeting of an auditor or auditors shall be made by a special resolution."

और उनका यह कहना है कि इन लोगों को अपाईंट करने का प्रोविजन है उनके अन्दर यह होगा कि :

"Provide that in the case of a firm of auditors 'specified number of companies' shall be construed as specified number of companies per partner of the firm."

तो उनकी डेफिनीशन दी है कि :

"In the case of a person holding appointment as auditor of a number of companies each of which has a paid-up capital of less than Rs. 25 lakhs, twice by such companies;"

तो उसके अन्दर आपने 20 कम्पनीज के लिये कहा है। मेरा सुझाव है कि आज भी कम्पनीज वे जो शेयर्स हैं उनके अन्दर क्या हालत हो रही है।

"The over-all payments to audit and other services has shown an increase of 11.8 per cent in 1974-75. Thus, total payments amounted to Rs. 126.7 lakhs in 1974-75 as against Rs. 113.3 lakhs in 1973-74."

यह जो आंकड़े हैं उनसे मालूम होता कि कुछ कम्पनियों के पास ही काम है, जैसे फर्गुसन, इनके पास 51 कम्पनियां हैं। और इनकी जो आमदनी हुई थी वह 30 लाख 76 हजार हुई थी। लेकिन 1974=75 में वह आमदनी बढ़ कर 32 लाख 65 हजार हो गई। इस प्रकार उनको 6.1 प्रतिशत का फायदा एक साल में हुआ।

Price, water House & Peaf. के पास 26 कम्पनियां हैं। और 1973 में उनको आमदनी हुई 9.36 लाख रुपये जो बढ़कर 1974 में 11 लाख 65 हजार हो गई। यानी 9.8 परसेंट फायदा हुआ। आडिट के मामले में चार्टर्ड अकाउन्टेन्ट्स का नाम लेते हैं तो मालूम होता है कि कुछ कम्पनियां ऐसी हैं जिनके पास काम है, शेष के पास नहीं। 14,500 चार्टर्ड अकाउन्टेन्ट्स हैं जिनमें से 6,000 काम करते हैं और कुछ लोग असिस्टेंट के रूप में रहते हैं। अब सवाल यह उठता है कि यह जो कैंसेलेशन आफ वैल्यू कुछ कम्पनीज के पास है इन्हें लिये क्या किया जाय? मेरा एक सुझाव है कि एक पार्टनर के पास केवल 10 कम्पनीज के कैसेज होने चाहियें, इससे ज्यादा नहीं। अगर ज्यादा पार्टनर हो जायें तो 10 के आधार पर उसको बांट दिया जाय।

सभापति महोदय : डागा जी, डिप्टी स्पीकर साहब बतला चुके हैं कि इस बिल के लिये केवल 22 मिनट हैं। इसलिये आप समाप्त करें।

श्री मूल चन्द डागा : यह गलत कहा है; अगर ऐसा उन्होंने कहा है तो आप देख लीजिये रेकार्ड।

उत्पन्न नही होगा, यह बड़ा इम्पॉर्टेंट बिजनेस है। मैं समझता हूँ कि आप भी वह नहीं चाहते कि कुछ लोगों की पूंजी बढ़ती रहे और दूसरे लोगों को काम न मिले।

सेक्शन 619 में कहा गया है :

"The auditor of a Government company shall be appointed or re-appointed by the Central Government on the advice of the Comptroller and Auditor General of India.

Provided that the limits specified in sub-section (1B) and (1C) of section 224 shall apply in relation to the appointment or re-appointment of an auditor under this sub-section.]"

इसके मुताबिक आडिटर का एम्प्लॉयमेंट सरकार द्वारा होना चाहिये। लेकिन हम देखते हैं कि सब सरकारी महकमों और पब्लिक सेक्टर की कंपनियों में बड़ी कंपनियों द्वारा एपॉयंट होती हैं। दिल्ली में रहने वाला चार्टर्ड एकाउंटेंट सारे हिन्दुस्तान में बुकता है और हजारों रुपये टो. ए० और डी. ए० में बनाता है। अगर किसी ग्रुप की कोई कंपनी, या कंपनी की कोई ब्रांच, मद्रास, उत्तर प्रदेश या पटना में है, तो वहाँ के चार्टर्ड एकाउंटेंट को ही उसका काम करना चाहिये। लेकिन कुछ आडिटर कंपनियों में हैं, जो एक ग्रुप की सब कंपनियों का काम करती हैं। सेक्शन 619 के अन्तर्गत भी उन कंपनियों के चार्टर्ड एकाउंटेंट को लाखों रुपये मिलते हैं। वे हवाई जहाज में भी हिन्दुस्तान में बुकते हैं। इस तरह जो खर्चा होता है, उसके बारे में श्री खालिफर ने कहा था :

"The Government was thinking of establishing an independent bureau of Chartered Accountants to scrutinise the accounts of all companies. The balance-sheets of the companies would then show higher profits and, consequently, the quantum of bonus for workers would be increased."

आज सेक्टर को बोनास तय नहीं मिलता है ? इसकी वजह है कि उन चार्टर्ड एकाउंटेंट्स का आन्वैकिंग सोशल नहीं है। उनका सम्बन्ध कंपनी वालों से ही जाता है और इस तरह उनमें आनेस्की और इंट्रेस्टि नहीं रहती है। इसलिए इस सम्बन्ध में यह परिवर्तन करना चाहिये कि चार्टर्ड एकाउंटेंट्स को आन्वैकिंग रखते हैं, उनको भी काम मिलना चाहिये, उनको सिकर्स की कंपनियों का काम मिलना चाहिये और उन को सिकर्स कंपनी जगह काम करना चाहिये।

SHRI DINESH JOARDAR (Malda),  
Mr. Charman, Sir, I congratulate and thank my hon. friend, Shri Chintamani Panigrahi for giving us this opportunity of at least discussing this problem of the auditing firms, that there are only a few auditing firms which are getting all the opportunities of auditing the assets of the nation as well as the public sector companies and private sector companies. Only a few auditing firms have monopolised this auditing business throughout the country and have created an atmosphere where in the matter of actual auditing of profit or loss or fixation of rates for taxation and other purposes, immense difficulties are being created because all these auditing firms audit the balance-sheets of the companies, the private limited companies, the public limited companies, the private sector companies and the public sector companies, in a traditional manner. That has already been discussed in detail by the mover of the Bill. I would like to point out that now not only this evasion of taxes and accumulation of black money and other things is one aspect of this sort of auditing business in our country—that is one outcome of this problem—but the other factor is that the cost structure of any production or manufacture and also fixation of the price and other matters concerning manufacture and production of the manufacturing unit can never be ascer-

[Shri Dinesh Joardar]

and properly either by the government or any civil supplies or distribution organization. Now we are talking about minimising the cost of production and how to bring down the prices of essential commodities and other manufactured and produced commodities in our country. Unless we get all the factual figures of the manufacturing costs, that is not possible and only by a true and sincere auditing that can come about.

We know in our country all the manufacturing concerns in the private sector particularly manipulate their accounts in such a way that always the employees are being deprived in the context of their rising costs. They are telling every time that the prices are rising. So to keep down the prices the employees should suffer they should forego their increment, their bonus DA and other things! These things are also coming in because the audit firms do not sincerely perform their duties. What should they do as Chartered Accountants? What is the obligatory duty of a Chartered Accountant? Is it simply giving the balance sheet with a rubber stamp on it and their signature for the purpose of tax assessment and other purposes? These things have come up now. This practice is going on very well throughout the country. So, assessment of the actual cost of a unit of production or manufacture of a commodity should also be a duty of the Chartered Accountant—to assess the actual cost of unit of production. Also there is a social concept. Now the social concept has changed that profit alone is not the consideration for any concern, whether it be manufacturing, production or otherwise. This social concept should also be introduced in auditing which a Chartered Accountant has got to discharge.

Now not only the costs but how wastes, sometimes wastes of the assets and raw materials and other things, the avoidable wastes can be eliminated

from the production and manufacturing losses—that should also be considered and that also should be a responsibility on the part of a Chartered Accountant and to procure and present a clear picture of these things. Also there should be a provision that a report on these aspects as have been found by the audit firms or the Chartered Accountants should be sent to the Government. This should be sent not only to income tax authorities, direct tax authorities and other officers but this should be sent to State Government authorities, Central Government authorities etc., to assess what the actual position of the factory or the manufacturing unit is, what are the avoidable wastes, how much money is spent by way of transport by way of salaries, by dividends and other things for the proprietors and owners of these manufacturing units. They take away a large portion of the value of production and manufactured articles. Therefore it is my plea that this Audit Report has to be made available to State and Central Governments. That will help them in assessing the price at which a particular article should be sold in the market and what will be the profit which could be there. That will be an obligation on the part of the chartered accountant.

सभापति महोदय, जैसा कि श्री डिप्टी स्पीकर साहब ने बतलाया था इस बिल के लिए हमारे पास 22 मिनट हैं जो खत्म हो रहे हैं लेकिन मैं समझता हूँ कि हाउस की इच्छा है कि इस का टाइम कुछ बढ़ा दिया जाए क्योंकि श्री तीन स्पीकर्स के नाम मेरे पास हैं उस के बाद मिनिस्टर साहब को जवाब देना है। मैं समझता हूँ हाउस की मना है एक घंटा टाइम इस के लिए बढ़ा दिया जाए। एक घंटा टाइम इस का बढ़ाया जाता है।

श्री मूल सदन द्वारा : उस समय मैंने कहा था तब तो आप ने मुझे रोक दिया था। मैंने आप से कहा था।

क्या वास्तविक तथ्य है : मिस्टर डागा, क्या आप क्यों टाइम वेस्ट कर रहे हैं ? आप गहरावानी कर के बैठ जाएं ।

**SHRI DINESH JOARDER:** What is the condition prevailing in the country? As regards trade, commerce, manufacture, production, everything, everything seems to be a secret affair! Everything is secret; business is secret; commerce is secret; trade is secret; even taxation proceedings are secret; even their profits are secret. Unless this outlook is changed, unless this secrecy part is done away with, no improvement could take place. We can know the real state of affairs only if sincere and true picture is revealed by the chartered accountants. Particulars regarding technical know-how are to be made available to the public at large. These chartered accountants should go into the details of these matters. Those who are engaged in auditing these firms have to have some idea and practical experience how a business can be run, how a trade can be run, how a manufacturing unit can be installed and effectively run and so on.

This huge fleet of chartered accountants and other people get ideas and they can start their own business, trade and commerce and they can flourish. Their number can be increased and many people can get employment opportunities and that should also be part and parcel of the audit business.

Lastly, I would like to mention one thing regarding the Chartered Accountants Examination and the results. It is now found—I won't mention the names—that in the last few years only a particular class of people are able to pass this examination. Year after year others who have got capabilities, appear in the examinations but they are not able to qualify in it whereas we find that these big business houses send their children and their relations

to the examination and they have been able to pass this examination. In the auditing business, they are keeping everything secret. Their accountants only audit the accounts of the audit firms. In the Examination, only the big business people and their relations are getting better opportunities and the results are good. That aspect should also be taken into consideration by the Minister. Lastly, I request that the audit firm itself should not be audited by themselves but by some outsider—the chartered accountant of the other firms. If this is done, then we will get an idea or true picture of the audit firm as to how they are doing their business. I congratulate our hon. friend Mr. Panigrahi who has come forward with his Bill thereby giving me an opportunity to take part in the debate.

**SHRI JAGANNATH RAO (Chattrapur):** Mr. Chairman, Sir, while I appreciate the intention of the hon. Member in bringing forward this Bill which he did on the 2nd of July, 1971, I am afraid, it is a bit out of date. Much water has flown down the bridge of Yamuna between 1971 and 1974. The problems of the company audit, the difficulties experienced by the junior auditors and the complaints of the audit profession in relation to these companies are before the Government and a comprehensive amending Bill was introduced in this House in 1972 which was referred to the Select Committee of both Houses of Parliament in which I happened to be a Member where elaborate evidence was recorded not only from the Chambers of Commerce and Industry but also from the Chartered Accountants and also others who had the special knowledge of the working of the Companies.

16 hrs.

All these aspects were considered and the Committee came to the conclusion of fixing the number of companies an auditor personally or a firm of auditors could audit at 20. Therefore, the Mover could have withdrawn this

[Shri Jagannath Rao]

Bill and introduced another after the amendments to the Company law came into force.

One of the reasons advanced by the Mover is that the social concept should be introduced into auditing, by which perhaps he means that there should be dispersal of audit work among the thousands of members of the audit profession. I respectfully submit this is not possible. No work can be distributed because some auditors have little work or are starving and some work should be given to them. This is not possible. An auditor like a lawyer or a doctor should have a reputation which would enable him to get the work of audit of a company. Naturally companies would select auditors or firms of auditors who have a reputation in their profession. Therefore, it is not possible to introduce the social concept in auditing in fixing the number of companies a firm of auditors should be allowed to audit under the Act.

His second point is that monopoly should be broken. The cry against monopoly is common nowadays—there should be no monopoly houses, there should be no monopoly and all that. Where is the question of monopoly? If an auditor has attracted the audit work of a number of companies to himself, how can you say it is a monopoly? When an auditor has no work because he has not earned a reputation in the field, how can there be a complaint that he is not occupied? This happens in every profession. Only a few lawyers get the work. Work is concentrated among a few doctors. How can the others in the profession complain? A person who needs the services of a technical man goes to the person who is really eminent, from whom he can get the work done efficiently. He should have confidence in him so that he can employ him.

Then there is the cry for nationalisation of audit. The Mover mentioned it while moving the Bill. How can

there be nationalisation of a profession? Have we thought of nationalisation of the legal profession or the medical profession? It is not possible. Can the State maintain a panel of lawyers? The State do appoint lawyers in cases where a client is not able to engage a lawyer. But no Government, no State, can maintain a panel of lawyers, doctors and so on to look to the needy. It is not a workable proposition. Nationalisation may be a good slogan, but it does not work in relation to certain professions in which the success of an individual depends on his own merit.

Another point urged by the Mover was that an auditor should be changed every two or three years. His main complaint is that an auditor or firm of auditors auditing the accounts of a particular company for a number of years may act in collusion with the firm and may not do the auditing faithfully or correctly, that he may be hand in glove with the company and its directors. In such cases where a chartered accountant is found to be guilty of misconduct, there are provisions in the Chartered Accountants Act under which action can be taken against him. It takes two to three years for an auditor to understand the working of a company.

All these questions were gone into in the Joint Committee in great detail and then it was found that no limit could be put. Though the number of companies an auditor could audit could be limited, the period during which he should be allowed to audit a company was not found to be capable of limitation as feasible, and that was why it was rejected.

Another objection taken by the Mover was that all the auditors are in the metropolitan areas. Necessarily they should be from the metropolitan areas. They should know the working of companies. How can an auditor residing in a small town whose only business is to audit the accounts of small businessmen for sales-tax pur-

poses or for the purpose of other commercial taxes be entrusted with the work of auditing a company's accounts? It is a complicated affair. It is not possible. It is only in metropolitan cities that the auditors could carry on their profession, they get the experience of wholetime accounts of the companies.

About costing also, I think the company law board can order an enquiry into the cost of production in a company. I think all those provisions have been made after elaborate discussion and some formula was arrived at and section 224 and explanation to section 224(1)(c) were enacted. It also specifies the number of companies that an auditor or audit firm can audit, taking into account the difficulties of various auditors who are briefless and also the fact that audit work was generally concentrated in a few hands and also the desirability of spreading audit work by taking away work from a very few hands and giving it to others. All this was given careful consideration and thought and the number, twenty, was fixed in the Companies Act amendment of 1974. To limit it to five companies I am afraid is not practicable and no audit firm can subsist on audit work with only five companies, of which at least two should be public limited companies. That is what it says. While I appreciate the intention of the hon. Member, I feel it is not practicable to enforce the provision. Perhaps there would have been different thinking on the subject had he introduced the Bill after the amendment of the company law in 1974, perhaps it would not have come in the form in which it was originally introduced in 1971. Therefore, I feel that this Bill cannot be accepted, it is a retrograde step. Section 224 was amended in 1974 and that section should stand. I am not in favour of this Bill.

**SHRI B. V. NAIK (Kanara):** I welcome this Bill by Shri Chintamani

Panigrahi. Subsequent changes in the statutes of company law have by and large let the question of audit of companies untouched, with due deference to the select committee which went into those details. The reason why I share particularly the sentiments of Shri Panigrahi to have a greater amount of control over our chartered accountants and the auditors is this. Audit as it is done today is only vouching, there are limitations, an auditor cannot go beyond a particular voucher, he cannot go behind a particular transaction, whether there had been dishonest practices, unfair trade practices or personal gratification by company executives or dealings which were not in the interest of the company or society as a whole. It is none of the business of the auditor today. The proof of the pudding is in the eating. One single instance will prove this. The recent drive by the Finance Ministry for unearthing black money yielded a total concealed income of Rs. 1500 crores. A very substantial portion of this belong to the organised sector of our economy, i.e., the corporate sector. If the auditors and chartered accountants in this country had done their job properly by plugging the loopholes and seeing that whatever one takes out of the concern is exactly what is due to him either by way of remuneration, salary, Director's fees, profits, dividends, etc., where did this amount of Rs. 1,500 crores come from? Did not come from the private sector, the tycoons and such other people connected with the private sector like Directors, proprietors, Managers, Managing Directors, etc.? What were our auditors doing? Does this give any good certificate to them for having done their job well? I wonder what the Companies (Amendment) Bill has been able to do except touch the fringe of the problem. The hard core of the companies administration, the watch dogs of the private sector, have not done their job properly. That is why even today we have generation of black money. Will the Minister kindly look into it? During the last four or five years, may I know how many charter-

[Shri B. V. Nalk]

ed accountants have been unchartered or dechartered for the malpractices committed by them. If at all there is some figure, it will be a drop in the ocean.

Shri Chintamani Panigrahi has to be complimented for bringing forward this Bill because much thought has not been given to the vital aspect of the external management of the corporate sector. If the minister feels in the present context it is not possible to accept this Bill in toto, he may kindly assure the House that in the most immediate future, government will bring forward an alternative in the form of a regulation of this very vital aspect of our economy, namely, auditors functioning in our mixed economy.

श्री हरी सिंह (शुर्बा) : माननीय सदस्य ने इस विषयक में बहुत ही महत्वपूर्ण समस्या की ओर देश का और इस मदन का ध्यान आकर्षित किया है और हमने लिए वह बधाई के पात्र हैं। एक जो आडिटर होता है वह कई सौ कम्पनियों का आडिटर बन सकता है, 2700 कम्पनियों का बन सकता है। देश में जितनी भी कम्पनिया हैं उनके आडिट का काम कुछ एक आडिटर की कम्पनियों के हाथ में ही है। उन्होंने एक प्रकार से आडिट करने की मोनोपोली बना ली है। मोनोपोली जिन किसी भी रूप में ही बड़ी घातक होती है। जो कम्पनियों के मालिक, प्रबन्धक, मैनेजर होते हैं वे इन आडिटरों में मिल कर करोड़ों रूपए का गोलमाल करते रहे हैं। इसका नतीजा यह निकला है कि सरकारों का, उत्पादन का, आवाहारी का फायदा जो सर्वसाधारण को मिलना चाहिए वह नहीं मिल पाया है। माननीय सदस्य बधाई के पात्र हैं कि उन्होंने इस बिल के द्वारा इन कम्पनियों के राष्ट्रीयकरण की मांग की है। मैं समझता हूँ कि इसके जल्द ही कोई और चारा हमारे पास बच नहीं गया है। अभी माननीय सदस्य

कह रहे थे कि देश के काले धन का जो निर्माण हुआ है उस में इन चार्टर्ड एकाउंटेंट्स का बड़ा हाथ रहा है। मैं समझता हूँ कि यह जो अभिशाप है इसको जल्दी से जल्दी समाप्त किया जाना चाहिए।

जिसों भी समाजवादी और प्रजातन्त्रीय देश के लिए मोनोपोली का किसी भी रूप में बने रहना उचित नहीं है। अभी महोदय अगर हम बिल का स्वीकार नहीं कर सकते हैं तो मैं प्रार्थना करता हूँ कि वह अपनी तरफ से बिल लाए। देश में धन का बराबर बटवारा होना चाहिए। देश में जो उत्पादन हो रहा है उसकी सारी जानकारी सरकार को होनी चाहिए। ये जो कम्पनियों के मालिक हैं, प्रबन्धक हैं, मैनेजर हैं खामख्याह लक्षपति और करोड़पति न बन जाए, इसको ध्यान में रखा जाना चाहिए। यह बिल हम काम में सहायक सिद्ध हो सकता है, ऐसा मैं मानता हूँ। माननीय सदस्य को इस बिन्दु को लाने के लिए धन्यवाद देने के साथ साथ मैं सरकार से निवेदन करता हूँ कि वह इसकी मशा और इस की स्पिरिट को समझे और अपनी तरफ से चार्टर्ड एकाउंटेंट्स के राष्ट्रीयकरण के लिए एक बिल अगले सेशन में स्वयं लाए।

THE DEPUTY MINISTER IN THE MINISTRY OF LAW, JUSTICE AND COMPANY AFFAIRS (SHRI BEDABRATA BARUA). Mr. Chairman, I thank Shri Panigrahi and the rest of the members who have spoken in the debate and who have raised many important points on the functioning of the nation's economy and on the vital aspect played by accounting in the nation's economy. Within the short time at my disposal, I will try to reply to all the points that were raised.

To begin with, I would like to dispel some of the misconceptions that might have arisen. Since it is a matter concerning an important profession in our



country, even at the cost of differing from my dear friends, I would like to put the records straight in regard to certain figures. I might concede that many of the points that have been raised have got some validity and should cause a national debate on the importance of and the improvements required in the standard of accounting in the country as a whole. First of all, I would like to say that whatever figures Shri Panigrahi gave, though they are no doubt published figures they are a few years' behind. It is possible that a very great change might have come over the figures that he has mentioned. I do not think anybody has really gone into the state of affairs today after the amendments were passed. And, as Shri Rao has mentioned, these amendments were passed after a great deal of deliberations in the Joint Committee and representations were heard by members individually and in the Committee. Because it affected an important profession and its employees, Government had to go through an intense sort of discussion with all the persons concerned before coming to certain conclusions, and that too after achieving the maximum amount of unanimity not only in the Committee but also among the auditors of all colours and of all States.

So far as concentration is concerned, I would like to put it this way. Suppose there are 100 sugar factories. Even if some of them may not be very big, if one auditor gets only one company there are bound to be a hundred auditors. In comparison to 8000 Chartered Accountants, it will look like a very small percentage. I am not trying to belittle the importance of the figures. Possibly there remains even today some concentration, although we have not gone into it. There have been big and small auditors, this is a fact of life. But this word "monopoly" I would not like to use in this context because it applies only when a person has control and others cannot come in. That is not the situation here.

The bigger audit firms can have only 400 audits today, if there are 20 partners, because there is a ceiling of 20 on the number of partners in an audit firm. So, however big a firm, it can have only 400 audits at the most, and then there is a sub-ceiling, and that is that out of the 400 audits, not more than 200 will be of companies with Rs. 25 lakhs of paid up capital or more. This conceals a lot more, because there can be big firms like Hindustan Steel Ltd. Of course, Hindustan Steel Ltd., is not going to be audited by one firm, but the point is that this ceiling has been put, and so I would not like to use the word "monopoly" in this context.

I would like to dispel another impression, that the Government is nominating or has nominated Members of the Institute of Chartered Accountants from monopoly audit firms. In fact, Government appoints only six nominees out of 30 Members, the rest are elected. And these nominees are representatives of the Finance Ministry, Company Affairs, Labour Ministry etc. and one nominee only is nominated by FICCI ASSOCHAM because we thought they should also be given a hearing. We have developed a convention that not one of them will be Chartered Accountant. Therefore, there is no possibility of big audit firm, coming in through nomination.

Regarding unemployment of Chartered Accountants, I would like to say that possibly there is no such thing. The Council itself has an Employment Bureau and they have found that there is nobody really unemployed, nobody really wanting to be employed. It is another matter that a person may like to set up his own business and may face difficulties. There may be under-employment, but if he likes to go in for a job, jobs are ready waiting for him today. I am told that a Chartered Accountant who has just passed can today get at least Rs. 1000 or Rs. 1300 to start with.

I do not know, Mr. Salve will be able to say.

**SHRI JAGANNATH RAO:** He gets much more.

**SHRI BEDABRATA BARUA:** I am only trying to eliminate negatively some of the misconceptions in the interests of the profession which has got a high degree of professional competence. I have moved with Chartered Accountants for the last five years and more and I have no hesitation in saying that as a profession they have shown a high degree of integrity and competence. There can be a sort of understanding with big houses, I am not so simple as to deny that, they may have some sort of slant about the house that they audit, but the point is that as a profession they have maintained certain ethics and a certain amount of moral standards. I would concede that sometimes they might have ignored certain points. As to what Government has done in regard to that, I shall specifically state in a short time.

A Chartered Accountant does not sign blindly, he would not be allowed to sign blindly, he has not done it, because there is criminal liability for negligence, and there is also the disciplinary jurisdiction of the Institute. So, for all these reasons, he cannot simply sign blindly. But when he finds that the law allows him not to go deliberately into certain unpleasant aspects of the firms' functioning, he can possibly avoid it. But today we have taken certain steps which do not allow him to do that. Of course, the steps were taken only in January, this year. We cannot, therefore, really assess exactly as to how it has worked out.

I would also say, regarding black-marketing or black money or tax evasion, actually, the chartered accountant does not very much come into this aspect. The Government

has already taken other measures. If a company is selling a particular raw material or half-finished product at a particular price and then it takes something under the table, there will be nothing mentioned in the books that the firm has taken something under the table. It is not something which an auditor can possibly go into. But still we have put a certain responsibility on him.

Then, I would like to say that today we do not uphold the theory that share-holders appoint or elect the auditor. The fact is that, by and large, the auditor gets appointed by the management. So, this itself circumscribes his authority to some extent. The law allows this type of a situation. The hon. Member who were in the Joint Committee know that the law was amended. The Government has been taking a number of steps to see that this nexus, this authority, of the shareholders over the auditor is reduced. The Act provides independence and autonomy for him. We have taken some other steps also. There is an ever-present danger of collusion, not collusion directly, a sort of meeting him day to day, working for him and giving him other services. This matter has been raised by hon. Members. I am not able to find out what to do about it. Something has been done. Even today, we have issued an order that if an auditor takes the internal audit of the company, he will not be auditing the company. We have just issued an order today.

We have to separate possibly the other services. Now, in the name of "other services", if an auditor gets paid from the same company, possibly, he would be tempted to ignore certain aspects of the firm's functioning. But we do not propose to do immediately anything because we have taken a certain number of

measures which are very far-reaching measures. We would like to examine those steps....

**SHRI CHINTAMANI PANIGRAHI** (Bhubaneshwar): Please let us know the measures.

**SHRI BEDABRATA BARUA:** First of all, as I said earlier, a ceiling has been put. The ceiling is, 20 audits per auditor. Now, all auditors usually form a firm. Even if I am a sole auditor, I call myself "Barua & Co." or something like that so that I get a status. Usually, a firm appoints a number of auditors. There are 6 or 7 auditors in big firms, like, Ferguson and all that. Because we have put a ceiling, they have increased the number to 20 audits if they want to retain auditing. They appoint a number of auditors who are usually in big companies well-paid.

Now, the Chartered Accountants' Council has taken a decision and has given a directive—they also want to take a sort of action—that those members who are in full time service in practising firms of Chartered Accountants should not be counted for the purpose of determining the number of audits. The All-India Institute of Chartered Accountants has been feeling concerned about the developments taking place. They have adopted a self-regulatory measure. This does not go far enough in every case. But they have taken a certain self-regulatory measure. For example, they have said that senior chartered accountants will not take audit of companies where the audit fee is less than Rs. 2,500. These are the decisions they have taken. They have told the senior chartered accountants and, by and large, they are sticking to it. They have got their own methods to pressurise the auditors who go against this type of a thing. Another aspect, is that while we are not....

**SHRI N. K. P. SALVE (Betul):** Before the hon. Minister goes to the next point, may I crave your indulgence to ask him a query on this very important change that was made in the Company Law with a view to bring about a certain ceiling of audits in the hands of different Chartered Accountants. The law has been amended to provide that per Chartered Accountant an audit of 20 companies, out of which ten audits alone could be of companies having a paid up capital of more than Rs. 25 lakhs. If you have 20 partners in a firm, then you can have 400 audits. 400 audits is an empire by itself.

May I know from the hon. Minister whether, after this enactment, his Ministry has made any study as to whether any of these larger firms of Chartered Accountants which held amongst themselves nearly 90 per cent of the audit have really been affected by it? Have they examined the income-tax return of any one of these partners of these large firms to find out whether he has been adversely affected because that alone can be the criteria? There may be several kinds of combinations and permutations.

Then this Rs 25 lakhs paid up capital is something un-understandable because a company with Rs. 25 lakhs paid up capital may have a real capital of several crores of rupees and a company which has a lesser capital may have the entire capital wiped out. But, leaving that apart, what I would like to know is: since it was a change or amendment made in the Company law with very good intentions, whether they have followed it up to determine not merely with reference to statistics of audits but to find out whether it has made any difference to those large monopoly firms of auditors with reference to their income.

**SHRI BEDABRATA BARUA**  
I quite concede some of the points. However, it is possibly too early to make an assessment. Mr. Salve himself will concede, but that apart, what has happened is that I have individually met a number of Auditors and they have told me that whereas previously they had seven partners now they have to engage more partners or employ more Chartered Accountants. They are giving up some audit. I cannot vouch for with a certainty that it is correct but many of them have said that they have to give up some audit. I have already once had to start with—that was before Mr. Salve came—that concentration possibly has not been very much affected.

But what has happened to-day? Apart from the ceiling the new amendment has also provided as Mr. Jaśanntha Rao has pointed out that to-day in companies where government financial institutions and banks have 51 per cent share government will directly appoint the auditors. So Government has come in a big way in the appointment of auditors. While nationalisation has not been done and may not be done to-day Government is appointing auditors also in regard to other companies which is a vast area where 25 per cent shares are held by public financial institutions, bank, & Government. Now there are very few large companies where 25 per cent shares are not held by financial institutions. In case government—State or the centre, I think now most of the big public companies may possibly come under this category and most companies have to pass a special resolution to get the consent of the government institution, to appoint the auditor. This is another step that has been taken by the amendment.

**SHRI N K P SALVE** But in how many cases have you followed up this section?

**SHRI BEDABRATA BARUA**  
This is an obligatory section. Unless a special resolution is passed, it cannot be done. That means

**SHRI N K P SALVE** Perhaps I have not made myself clear. Auditors are continuing for several years. They will pass a special resolution where the State Government, Central Government, public financial institutions and banks are holding 25 per cent shares and without your consent it is impossible to pass a Special Resolution. So I want to know whether they have acquiesced in it. What I mean is in how many cases you have exercised this option?

**SHRI BEDABRATA BARUA**  
In fact the option is with the financial institutions.

**SHRI N K P SALVE** To the extent the Central Government holds

**SHRI BEDABRATA BARUA**  
I will not be able to answer that question straightaway.

Then we have also introduced cost audit the effect of which will be that government can order auditing the cost of the company which covers the point made about social audit. We have got an order popularly called the Company Social Audit Order. By virtue of that order now while the Auditor could have possibly ignored some of the points he is now required from the 1st of January to report specifically, certify that the records have been kept that he has seen that the management is doing this and that I will do no better than read out a few sentences from there.

By virtue of this order, the Auditors' Report on the accounts of a company to which the relevant provisions contained in the Order apply shall have to include a statement whether the company is maintaining

proper records of fixed assets, whether physical verification of fixed assets, finished goods, stores, spare parts and raw material has been done by the management, and discrepancies dealt with in the books of accounts, and whether the valuation of closing stock is fair and proper. In case the company has taken any loans secured or unsecured, he will have to state whether the rate of interest and terms and conditions of loan are prejudicial to the interest of the company.

I would not like to take the time of the House and read out the whole thing. As a consequence of this order, any Auditor has to go into a number of aspects. He should certify, this loan was taken, but was not returned; this money was taken, but this was not credited, etc. Formerly also he possibly was morally bound to look into this but formerly the requirement was not mainly so stated and he could possibly not look into it. But how he has to certify that he has gone into it. This is a very important provision which has really introduced social audit. Although it will take one or two years to know the outcome of this, I would like to say that Government is confident that this would certainly create a very important change in the auditing system in the country. I have already covered most of the grounds. Ceiling on five would be very difficult. Even on the ceiling on twenty, I have found this hurt small Chartered Accountants in backward States. I have found that this ceiling had hurt them of all persons. I have asked the President of the Institute as to what he is doing for them because we have to think about it as a small audit may pay him Rs. 500 or Rs. 200 and now if the ceiling is twenty, he may not get Rs. 3000 or Rs. 4000 in the year. In fact, to bring down the ceiling to five, there may be redistribution at the top but it will not touch the

bottom. It is no argument for not re-distributing but I am saying about the practical difficulties. Otherwise we would not have taken time in the committee for nearly one year and yet we could not come to a decision. Ultimately the Institute itself came forward with certain suggestions and some leadership was given by the Institute and we all came to the conclusion that this was the best way out.

Regarding rotation, it was considered and it was not found possible ultimately. I am not discussing the House concept today because in the House a company could change from one place to the other, Birlas could take a man from Texmaco to Jiyajirao Cotton Mills or a man from Keshoram Mills could go to Century Mills and we would be able to do nothing about it. So, rotation is not the answer.

As I have stated, Government has taken a number of steps. Government would not like to disturb this profession unduly. As I have already said, this is a profession which has been contributing a lot to the industrial system. They require support. They require at the same time some regulation. We would not like to believe that they are doing everything right. At the same time we would like to encourage them to go ahead and we have made a number of regulations. We are persuading them, even coaxing them, to take measures, something which they did not want to take or may not have liked to take. In regard to the position of the Chartered Accountants, Government would like to stop speculation in this matter and I would like categorically to state that there will be no nationalisation of this profession. This idea itself is nebulous as to whether Government would appoint all the auditors, whether by appointing the auditors Government would really gain anything, etc. because that may lead to only Government officers auditing the thing and that

[Shri Bedabrata Barua]

does not prevent anything that is now supposed to have taken place because Government officers going and auditing could be no better than any other person auditing. We would like to have one or two years to consider all the developments. In the meantime the problem has been sufficiently discussed in the country already and I thank again Mr. Panigrahi for raising this debate which has been a very very interesting debate.

Mr. Panigrahi himself has raised the standard of the debate by bringing in every aspect of the matter before the House on the subject under discussion. I hope Mr. Panigrahi, after the discussion, will withdraw his Bill in view of the Government's position and the explanation that I have given.

**SHRI CHINTAMANI PANIGRAHI** (Bhubaneshwar): Mr. Chairman, Sir, first of all, I thank all the Members who have participated in this debate, especially for the strong support given by Shri Salve and Naik But, in view of the present economic circumstances that is prevailing. I feel, that this Bill is relevant. When this Bill was discussed in this House on 13th, one important member of the Institute of Chartered Accountants was meeting many of the Members of Parliament—perhaps he was more hectic than Government—and I was wondering whether he had been able to influence them. Perhaps one hon. Member had been affected. A vast section of this House has given strong support to this Bill

While discussing this Bill, I said that this Bill was introduced in 1971. One hon. Member said that between 1971 and 1974 much water has flowed under the bridge of the Yamuna. I should say that between 1974 and 1976 not only much water has flowed in the Yamuna but in the Ganges and the Saraswati also. All the rivers

in India are overflowed. The Minister has to declare an emergency and now the 20-Point Economic Programme is before us. That is for checking the profiteering, hoarding, blackmarketing etc. This 20-Point programme asks us to check the price rise. We shall also have to look to the cost aspect of the products of the industries so that the prices are controlled. Auditing is the only profession which is there to assist the Government in carrying out its responsibility.

The Minister, in his reply, said that Government has issued a fresh order enforcing a social audit in the corporate sector. The auditors are required to conform to this new order. And it will be in tune with the 20-Point Economic Programme so as to keep control over the auditing of these big business companies and their management.

I would like again to put this before the hon Minister. I am very happy that he has given some suggestions. There was no aim to disturb the chartered accountants. There are today more than 11,000 chartered accountants in the country and 8,000 auditing firms. There was an order even by the Finance Ministry that even in the public sector and the various Ministries and departments, there is capacity to absorb 2,800 chartered accountants. But it has been found that in the public sector only 7-8 per cent of the estimated figure is absorbed. So can we not ask the public sector and government departments to disperse the audit? That is the point. Audit should be dispersed so that the minimum number which was calculated can easily find their jobs in the public sector corporations and government departments. Why can it not be done? It should also be done. I request the hon Minister to look into it.

Then it was said that the audit profession should not be nationalised. I am not an astrologer or a professor. I do not know whether the hon. Minister thinks that what he says today will hold good for all time; I cannot say what will happen tomorrow. If a situation arises, if the situation calls for such a thing, it is to be considered. The Prime Minister takes only two minutes to decide a thing. If we really want to do it, if such a problem comes, any moment it can be taken up. I hope Government will go by the directive when such a situation arises. I did not say that you nationalise here and now. What I said was that if the situation demands, it should be taken up for consideration. If we want to check this blackmarketing—Shri B. V. Naik referred to the unearthing of Rs. 1500 crores of black money—this audit should be fully under the control of Government, because this is the only apparatus which can check everything at the source. If you want to save Ganga, no use going to Hooghly where all the way it has been polluted; it is better to go to the source, Gangotri. This is what I said. Let us check it at Gangotri, at the source where all the corruption emanates. That was my aim and that was what I was submitting for the consideration of Government.

I am very glad that the hon. Minister, though not in a very clear and straightforward way, did give many hints that things are not so good, they are not as good as they should be. I am happy he has given sufficient indication that things will be taken seriously into consideration by Government.

It was said that this audit profession is a kind of expertise, so only people have to come to Calcutta, Delhi, Madras and Bombay. I think the whole aim of Government is to disperse expertise to the several lakhs of villages in the country. The

Prime Minister is all the time saying that technology should go to the villages. What is the meaning of all this high technology if at least one per cent of the 60 per cent who are living below the poverty line do not get the benefit of it? Today 8000 auditors are there. We have such good expertise. (It cannot be said 'We have 120 monopoly houses. Give us another 20 monopoly houses; we will help this country'. This is no answer to our problems. Expertise should not be exploited; it should not be used as an abettor in the creation of black money, profiteering. They cannot do like that.

So I am very happy that this matter was sufficiently discussed. I am also happy that after the twenty-point economic programme and the Company Amendment Act, so far as the audit profession is concerned, it needs further consideration. I am happy to note that the hon. Minister has said that strict orders have gone forth for a kind of social audit so that various things would be checked, inventories and other things will be looked into. Let the audit firms be conscious of the new responsibility that has come to this country after the emergency and the twenty-point economic programme. I hope in view of the changes that have come about, they should not go on canvassing; let no one from the Institute of Chartered Accountants try to canvass and convince members that we have had discussion in 1974 and there is no need for discussion in 1974. That should not be. Let them be careful of themselves. In view of what the hon. Minister has stated and, also being a party Member I should go by the directive. I beg to withdraw my Bill.

MR. CHAIRMAN: Has the hon. Member leave of the House to withdraw his Bill?

SOME HON. MEMBERS: Yes.

The Bill was, by leave, withdrawn.