"Auditing and governing are two separate functions. But, these are not mutually exclusive. Neither are they independent; nor interdependent. Rather, one reinforces the other. Hence, the question arises how far one can go to fortify the other?"

Abstract
Auditing encompasses investigation process, attestation process and the reporting process pertaining to economic actions and events. International Audit Standards maintain that an auditor’s mandate may require him to take cognizance and report matters that come to his knowledge in performing his audit duties with regards to Compliance with legislative or regulatory requirements; adequacy of accounting and control systems; viability of economic activities, programmes, and projects. Two variant situations emerge when the functions of auditors and the retirements of good governance are placed face to face. The former is confined to ‘economic actions and events’, where as the latter is the outcome of a wide range of managerial functions. The question then arises whether the auditors should cross their operational limits in order to bring about the desired level of improvement in the quality of governance or alternatively, while restricting themselves to their term of reference, they should operate more effectively so as to help improve the quality of governance. This review aim at providing an insight into the auditor’s perspective of their Role in Corporate Governance and gives a wider scope to understand various contemporary issues related to Corporate Governance and the role of the Auditor.

Keywords
Auditor, Corporate Governance, Good Governance

Auditing
Auditing is defined as obtaining and evaluating evidences regarding assertions about economic actions and events to ascertain the extent to which they correspond with the established criteria, and to communicating the result to the interested users. Thus, it encompasses investigation process, attestation process, and the reporting process, pertaining to economic actions and events.

Corporate Governance And Auditor
Corporate governance is an internationally debated interdisciplinary concept with many characteristics. However, the concern is whether in the context of corporate governance, auditors play an important role. Auditors are given wide powers to enable them to detect wrongdoings by the management. They are expected to be independent of the company and report on the company objectively. In fact, auditors can only play their role effectively if they are independent. The auditors are able to remove management’s biasness as regards to the presentation of the company’s financial information. They can report to what extent the company practices corporate governance. They are expected to play a significant role in maintaining good corporate governance. They must ensure that good corporate governance practices are adopted. They must act as the guardian of the company’s financial integrity. This is because an effective and objective audit is an essential part of corporate governance. This is to ensure that the legal position is in tandem with international standards in the realm of corporate governance. Thus, it was correctly stated in Simonius Vischer & Co v Holt (1979) that that the duty is extended to checking the conduct of any servant or director of the company. Notably, corporate governance is a key factor for institutional investors in deciding whether to invest in any company. Nonetheless, all the scandals occurred although the Code was already in place. Furthermore, initiatives have been taken by drawing up the Code in ensuring that the Board of Directors are responsible and accountable. However, the same could not be said in relation to auditors per se i.e. there is no specific code governing auditors’ role, duties and obligations. Notably, many times the Code has been revised. One of the purposes is to strengthen the role of external auditors and its relationship with the audit committee of a company (SC issued revised code of corporate governance, 2007).

Role of Auditors in Good Governance
Lately, a view has emerged that auditors should play a more vital and direct role in establishing good governance. Should this mean to expect them to cross the established borders of genuine audit functions? It would be stretching the string too far without gaining anything positive and substantial. The only alternative then is to make the auditors feel more conscientious, more dutiful, and therefore to be more effective while restricting themselves to their term of reference.

It is established that auditors are not required to traverse their area of operation. Whatever they are expected to contribute towards good governance shall therefore be from within their range or sphere of activity. In other words, it is the quality of their performance that will make all the difference, which, therefore, needs to be ameliorated to match the requisites of good governance.

Modern Approach to Auditors’ Duties and Obligations
The duties and obligations of auditors must be determined in reference to the purpose for which an audit serves. The duties and obligations must be made more relevant, useful and reliable to existing individual shareholders, directors, audit committee, prospective shareholders, employees, creditors, guarantors, companies wishing to exercise takeovers, mergers and acquisitions, trustees, beneficiaries, regulatory bodies, government and members of the public. Furthermore, from an international perspective, the duties and obligations of auditors have been widened. Therefore, in conducting an audit, auditors are now obliged to take a much stricter approach to their clients. There is an increasing support for the view that auditors should take on a more active role. Thus, there is a clear need to depart from the metaphor that auditors are merely watchdogs, to formulate more exacting duties and obligations of the auditors. Provisions have been enacted in ‘the Companies Act’ in relation to appointment, eligibility, qualification, disqualification and removal of auditors. The intention is to ensure that auditors are able to conduct auditing in an impersonal, objective and professional manner. Furthermore,
it is also to ensure that auditors are independent of the company. This is because independence is the virtue an auditor’s honesty. Auditors being professionals just like other professionals must be independent of the client that is receiving the service. The underlying reason for such emphasis and requirement is to ensure the auditors are not in a position of conflict of interests.

**Research Methodology**

The current debate in the Accounting World is regarding the role which the Auditor has to play in the Corporate Governance of a Limited Company. Over the years it is accepted that the auditors should restrict themselves to their Magna Carta; professionally, they should strictly abide by the accounting principles/international accounting standards and morally, they should comply with the International Federation of Accountants’ (IFAC’s) Guidelines on Code of ethics as adopted by the Institute of Chartered Accountants of India.

The study is mainly based on role currently played by the auditors in corporate governance of limited companies, are the auditors satisfied by the role played by them and what are their suggestions for improvement in the same. A sample of 50 statutory auditors of limited companies was taken. The sample consisted of 25 auditors with practice experience below 10 years and 25 auditors with experience of 10 years & above. A questionnaire was given to them with several questions on their personal profile and professional details. The questionnaires were collected and analyzed by using statistical and mathematical tools and techniques. And analysis was made by preparing table and chart for each criteria/question in the questionnaire.

1. A rigorous sampling technique could not be adhered due to practical difficulties.
2. The study was only limited to the statutory auditors of Limited Companies.
3. The study is limited to Mumbai city only; hence the findings cannot be generalized.
4. The study is restricted to ethical principles to be followed in auditing only.
5. The suspect being sensitive it was difficult at times to elicit responses from the respondents as they were unwilling to disclose certain information.

**Objectives of the Study**

1. To study the differences in perception of auditors regarding their role in corporate governance.
2. To provide an insight into the expected Role of Auditors in corporate governance.
3. To study the difference in views of the auditor based on number of years in practice – below 10 and 10 & above.
4. To study the effect of length of practice (experience) on the thinking of the auditors regarding their role in corporate governance.

**Sample**

The study sample comprised of 50 statutory auditors of limited companies. Using stratified random sampling method the statutory auditors of limited companies were classified into two categories on the criterion of length of practice (experience). 25 were with experience below 10 years and 25 were with experience of 10 years & above.

**Tools**

A questionnaire was framed consisting of 16 closed end questions and open end questions covering the personal and demographic profile and the professional details relating to auditing and corporate and other related data were collected.

**Data**

Using the survey method primary data was obtained from the respondents by administering the questionnaire and evaluating the feedback. Personal interviews were also conducted with few respondents who provided valuable information inputs. Secondary data included information collected from various Internet download, Books, publications and various journals from different libraries in Mumbai.

**Data Analysis**

A survey was conducted to investigate “Role of Auditor in Corporate Governance (Auditor’s Perspective)” which discloses the personal profile and professional details relating to auditing and corporate governance. The sample size of 50 respondents was surveyed.

1. **Age (in years)**

   - It is evident from the chart above that majority of the respondents fall in the age group of 35 years and above minimum in age group of Below 35.

2. **No. of years of Practice**

   - It is evident from the chart that the number of chartered accountants are equal in number for both the groups - below 10 years of practice and 10 & above 10 years of practice.

3. **Designation in the Firm**

   - It is evident from the chart that the number of chartered accountants are equal in number for both the groups - below 10 years of practice as well as and 10 & above 10 years of practice.
It is evident from the chart that the number of chartered accountants as partner are more in the group below 10 years of practice, where as the number of chartered as proprietor are more in the group of 10 & above 10 years of practice.

4. Area of Practice

It is evident from the chart that the number of chartered accountants having area of practice as taxation are more in the group below 10 years of practice, where as the number of chartered with area of practice as taxation & audit both are more in the group of 10 & above 10 years of practice.

5. Type of Clients

It is evident from the chart that the number of chartered accountants having non-corporate clients are more in the group below 10 years of practice, where as the number of chartered having corporate clients are more in the group of 10 & above 10 years of practice.

6. Annual Receipt

It is evident from the chart that the number of chartered accountants having annual receipt of 10-20 Lac are more in the group below 10 years of practice, where as the number of chartered with annual receipt 20-50 Lac are more in the group of 10 & above 10 years of practice.

7. Is the Code of Corporate Governance adequate and comprehensive in ensuring that auditors play effective role in auditing a company?

It is evident from the chart that the number of chartered accountants not agreeing with the fact that the Code of Corporate Governance is adequate and comprehensive in ensuring that auditors play effective role in auditing a company are more in the group below 10 years of practice, than the group of 10 & above 10 years of practice.

8. Are you satisfied with the role played by auditors in corporate governance at present?

It is evident from the chart that the number of chartered accountants not satisfied with the role played by auditors in corporate governance at present are more in the group below 10 years of practice, than the group of 10 & above 10 years of practice.

9. Who do you think is responsible for the recent scandals involving auditors in India, Malaysia, U.K, and U.S.A and in other parts of the world?

It is evident from the chart that the maximum number of chartered accountants of both the groups- below 10 years of practice and the group of 10 & above 10 years of practice think that the person responsible for the recent scandals involving auditors in India, Malaysia, U.K, and U.S.A and in other parts of the world are the Director and Management of the Companies.

10. Do you think there should be many changes in corporate governance to further enhance the effectiveness of audit in the interests of stockholders and stakeholders?

It is evident from the chart that the number of chartered accountants who think there should be many changes in corporate governance to further enhance the effectiveness of audit in the interests of stockholders and stakeholders are more in both the groups below 10 years of practice as well as the group of 10 & above 10 years of practice.
11. Should auditors play a more vital and direct role in establishing good governance?

It is evident from the chart that the number of chartered accountants who think auditors should play a more vital and direct role in establishing good governance are more in both the groups below 10 years of practice as well as the group of 10 & above 10 years of practice.

12. Does this mean to the Auditors to cross established borders of genuine audit functions?

It is evident from the chart that the number of chartered accountants who think that the Auditors will have to cross the established borders of genuine audit functions are more in both the groups below 10 years of practice as well as the group of 10 & above 10 years of practice.

13. Would it be stretching the string too far, without gaining anything positive and substantial outcome?

It is evident from the chart that the number of chartered accountants who think that this would mean stretching the string too far, without gaining anything positive and substantial outcome are less in both the groups below 10 years of practice as well as the group of 10 & above 10 years of practice.

14. How can an auditor play a more vital and direct role in establishing good governance?

It is evident from the chart that the number of chartered accountants who think that the Change in the process and System of Audit is required for the auditors play a more vital and direct role in establishing good governance are more in both the group below 10 years of practice as well as the group of 10 & above 10 years of practice.

15. Is the alternative of making the auditors feel more conscientious, more dutiful, and therefore to be more effective, while restricting themselves to their term of reference appropriate?

It is evident from the chart that the number of chartered accountants who think that alternative of making the auditors feel more conscientious, more dutiful, and therefore to be more effective, while restricting themselves to their term of reference appropriate are more in both the groups below 10 years of practice as well as the group of 10 & above 10 years of practice.

16. Do you think that it is the possible to establish a quality of audit?

It is evident from the chart that the number of chartered accountants who think that it is the possible to establish a quality of audit are more in both the groups below 10 years of practice as well as the group of 10 & above 10 years of practice.

Conclusion & Recommendations:
While critical accounting research has long been vitally interested in relationships between accounting, auditing and control of business organizations, mainstream research in accounting, finance and management has only recently displayed an increased interest in questions of corporate governance. The notion of corporate governance typically employed in mainstream research focus on enhancing benefits to shareholders. Auditors examine company’s accounts and report to the company on the accounts. Fundamentally, the concern is how auditors carry out these duties effectively. Additionally, ‘Code on Corporate Governance’ right from the Report of Cadbury Committee 1992 to the Combined Code of Corporate Governance published in the year ‘2008’, has undergone many changes to further enhance the effectiveness of audit in the interests of stockholders and stakeholders. Nonetheless, it is pertinent to determine whether the Code of Corporate Governance is adequate and comprehensive in ensuring that auditors play effective role in auditing a company. This is particularly imperative in the light of recent scandals involving auditors in India, Malaysia, U.K, and U.S.A and in other parts of the world. Moreover, there
is a growing concern for corporate governance domestically, regionally and globally. Company is the most popular form of business entity today as compared to sole traders and partnerships. Each decade passes with more and more companies being formed to do businesses. A company is able to raise capital for its operational needs. However, it is important that the capital raised by a company is used for lawful purposes. To ensure this, auditors are under a duty to audit the company. Nevertheless, if the duties and obligations of auditors are minimal, eventually, the use of a company will be misused. Simultaneously, businesses are also collapsing whereby it affects the rights and interests of the stockholders and stakeholders. Since such is the magnitude on the importance of auditors, equal importance should be placed on the duties and obligations of auditors. An Audit provides a high level of assurance about an accountability matter which is expressed as reasonable assurance. Otherwise the information contained in the report would be lost and misleading. The duties and obligations of auditors must be expanded for the sake of capital market, stability of financial and economic sector and the rights and interests of stockholders and stakeholders. A higher audit quality will provide better information to them. There must be a modern approach to the auditors’ duties and obligations in the context of corporate governance.

This whole discussion leads to the conclusions that:

- The auditors should restrict themselves to their Magna Carta;
- Professionally, they should strictly abide by the Accounting Principles / International Accounting Standards.
- Morally, they should comply with the International Federation of Accountants’ (IFAC’s) Guidelines on Code of Ethics.

With this discipline followed meticulously, the auditors’ role would have overriding impact on the overall performance of an organization, thereby contributing substantially and meaningfully towards “establishing a framework of good corporate governance”, the objective underlying the Code of Corporate Governance envisaged by the Securities and Exchange Board of India.

References

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