

## COMPANIES (AMENDMENT) BILL

71.30 hrs

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

SHRI CHINTAMANI PANIGRAHI (Bhubaneswar): Mr. Chairman, I beg to move:

"That the Bill further to amend the Companies Act, 1956, be taken into consideration."

I am grateful to you that I could get time at least today to move this Bill, because I had introduced this Bill in 1971 and even today I was rather apprehensive that because of Shri Bibhuti Mishra's Bill my chance might not come.

I have moved this amendment to the Companies Act of 1956 so as to make the existing provisions relating to audit effective and rational and also to remove causes that lead to the most pernicious practice of monopoly in auditorship and abuse of the law. When I introduced the Bill in 1971 government, I think, was kind enough to look into the spirit of the Bill and appreciate the need to have some check on the monopoly of auditorship and so the government brought forward an amendment in 1974 when there was a move to introduce some new sections in company law and at that time they limited the number of auditorship to a maximum of 20 companies. I think that is an improvement, a great improvement. But my Bill goes still further. Therefore, I would like to submit for the consideration of the Government that unlike the traditional auditing which was to look into the accounts and books and vouchers and to certify them as correct, they should keep in view the social concept of auditing and, as we are moving today when we have abolished the privileges of the Rulers, when we have tried to restrict the monopoly trade, we have introduced

so many things in the last one decade in this country. Therefore, I think that the time has come when the Government should again consider that so far as this auditing business is concerned, there must be more and more dispersal of auditing and more and more young Chartered Accountants who are thousands in number are coming in the field. They also submitted a Memorandum some years ago to the Prime Minister in which they had stated that the concept of auditing required rethinking, more and more opportunities should be given to those thousands of Chartered Accountants who were coming into this profession and they must be allowed at least to get a fair chance of auditing of different companies.

If you look to the regionwise distribution of auditing you will find that of the total number of 8,429 audit firms in the country today, the distribution is as follows:

Western Region	2,888
Southern Region	1,255
Eastern Region	1,521
Central Region	1,057
Northern Region	1,708

And out of a total number of registered Chartered Accountants of 11,438, 7000 hold practising licence.

Sometime ago a survey was made to examine the concentration of auditing in the hands of a few firms. This survey is quite revealing. I would only cite a few instances. In the coal industry, about 90 per cent of the total assets of all coal companies are audited by 6 firms.

SHRI N. K. P. SALVE (Betul): In the pre-nationalisation period.

SHRI CHINTAMANI PANIGRAHI: It holds good even after that.

SHRI N. K. P. SALVE: Even after nationalisation and after the amendment of the Companies Act and even

[Shri N. K. P. Salve]

in respect of public sector companies, the concentration of monopoly auditing is continuing by a few firms.

MR. CHAIRMAN: There has been a letter circulated by the Chartered Accountants—smaller ones—and they have said that the monopoly concentration of auditing is much larger than the monopolies themselves.

SHRI CHINTAMANI PANIGRAHI: In the Engineering Industry about 73 per cent of the total assets—there are 165 companies—are audited by only 12 firms. Let us now look at the jute industry. It is concentrated in the Eastern Region. It is not in the Central, Western or in other parts of the country. It is concentrated only in the Eastern region. 94 per cent of the total assets of the industry is audited by 8 firms and those firms are concentrated in the metropolitan city of Calcutta. In the plantation industry, 64 per cent of the total assets of all the estates are audited by three firms only and 80 per cent of the total assets of all the estates are audited by six firms. In sugar industry, 67 per cent of the total assets of all companies are audited by only 15 firms. In textiles, the audit of 73 per cent of the total assets of all companies is shared by only 19 firms. When I say this, it should be remembered that it cannot be aggregated because many of them are also common in all industries. In transport industry, 67 per cent of the total assets of the companies are audited by 9 firms. Taken together, about 69.40 per cent of the assets of all companies are audited by only 17 firms out of 8,000 and odd. There are only 107 partners in these 17 audit firms, 11.16 per cent of the assets of all the companies are audited by another 19 audit firms. The balance of 19.45 per cent of the assets of all companies are audited by the remaining large number of audit firms. In other words, on the audit of 70 per cent of the assets of the entire companies, the professional expertise of only 17 audit firms (or 107 chartered accountants) is engaged while

the expertise of the remaining 7,964 practising chartered accountants is utilised only for auditing 30 per cent assets of the companies. The talent and expertise of about 7,964 practising chartered accountants is thus allowed to go waste and unutilised although they are a great asset to our country and to our economy.

Most of the monopoly audit firms are based in metropolitan cities. As Salveji said, even in the public sector where there are thousands of factories spread all over the country, they will go only to Delhi, Calcutta or Madras where the branches of these 17 monopoly audit firms are situated. Therefore, I make the following suggestions for the consideration of the House and the Government;

1. A ceiling should be placed on the number of corporate bodies whose accounts should be audited by a single firm. Government has fixed the number at 20, but that is too much in view of the unutilised talent going waste. So, we should put the ceiling at 5.

2. Different auditors should be appointed for different branches of self-contained units of government companies. At present the entire audit of government companies is concentrated in the hands of a few firms.

3. The same auditor will not be appointed for the same government company or its branches or units continuously more than three times within 15 years.

4. It must be compulsory for companies to change their auditors after every three successive years of audit.

5. The auditor's appointment should be in individual name and not in the name of the firm.

6. Limit the audit to 2 for auditor in the same business group.

In the Institute of Chartered Accountants of India, there are Government nominees. You will be surprised to know that the present Government nominees are representing big monopoly firms.

SHRI N. K. P. SALVE: Can the Members of Parliament be sent to that Institute?

SHRI CHINTAMANI PANIGARHI: I appeal to Government to look into this matter and see that Government nominees do not represent big monopoly audit firms. I hope, Government will take note of this. They never look to the interest of the Nation, but they look to the interest of the monopoly audit firms.

These are the few suggestions I wanted to make so that more and more people should get this benefit and there should not be concentration in the hands of a few.

If you see the audit companies report, you will find what kind of audit they are doing. The Chartered Accountants must look into every aspect of cost production, cost ratio, inventory, etc. But they simply see the accounts and okay that. That is how things are going. Why it is done like this? It is done for other considerations. Some time ago, a survey was made regarding audit payment in 501 companies. The study revealed that 501 companies paid in 1970 Rs. 65.7 lakhs as audit fee to 114 auditors. Besides the audit fee, these companies paid Rs. 27.6 lakhs as "fees for other services" rendered by the auditors. What is this other service? The other service is to make their black money into white and okay it. And for that, they have got Rs. 27.6 lakhs. These 114 auditors have got Rs. 1 crore in 1970. What can we speak about the remuneration of the poor Minister of this country? Therefore, this kind of a thing should be looked into. I was looking into the reports of many of the meetings of companies; and a number of shareholders have complained

and questioned the propriety of payment to auditors for other services rendered; and they have brought it to the notice of the Government, because the shareholders' money is eaten up by the auditors. I think this also needs consideration by the hon. Minister and by the Government, so that they can improve upon it.

I will not go further, but I was thinking: why not nationalize the entire auditing? This is the most important thing. Once we nationalize the audit, most of the smuggling, black-marketing and price rise will stop; and I think you will have 90 per cent control over these companies and their production. I do not know how far I will get support for it.

DR. RANEN SEN (Barasat). Some of us will support.

SHRI CHINTAMANI PANIGARHI: Mr. Chairman, Sir, you are so much interested in this; and to-day you are in the Estimates Committee as its Chairman. We are happy. You have taken up this cause so many times. You have raised the LIC business in the House many times. LIC has got more than 600 branches all over the country. But how is it that the auditing of the entire 610 branches of the LIC is done by a panel of only 12 auditors? The Government should come forward at least now. Why should a panel of only 12 auditors audit the funds running into Rs. 1400 crores or Rs. 1600 crores of the LIC? Government should see how many people will get employment. Creating more employment is one of the points in the 20-point programme.

MR. CHAIRMAN: Mr. Salve can say how far it is physically possible to do things. How do they practise?

SHRI N. K. P. SALVE: I am grateful that the hon. Member has brought in this particular bill. It deals with my profession. Next time I hope I will have an opportunity of speaking on it. I am very grateful to him that he

[Shri N. K. P. Selve]

has collected so much of vital statistics; and a very interesting study has been made. A whole lot of ground has been covered in many spheres, as a result of the Companies (Amendment) Act; but a whole lot needs to be done, despite the amendments.

SHRI CHINTAMAN: PANIGRAHI:

I have gone to many public sector units all over the country. I find that the public sector units have their branches everywhere. Why should all the public sector undertakings give their auditing work only to metropolitan city-based firms? I have gone through this. This also needs examination by the Government; and they must come forward and do something. This leads to concentration, by itself. Therefore, I hope that the new objective which the government has, is that auditing should result in reduction of wastage, minimization of malpractices and reduction of tax evasion, and they must look into all the aspects of production, so far as the companies and industries are concerned, and about the propriety of investments also. That is the new objective for the auditors. This must be looked into.

I think that the proclamation of Emergency has created an atmosphere of discipline in all walks of life and it is but natural that a thorough revision of the activities of the companies should be there; and vigorous measures to control them through this process of auditing should be considered by the Government. I am quite sure that the Government which is taking new measures almost in every sphere of life, will take steps to see that all the loopholes are plugged. I hope the Government will come forward to give a new look to the Companies Act and to see that this concentration of auditors is not there. If they nationalize auditing; it will be good.

MR. CHAIRMAN: Motion moved.

"That the Bill further to amend the Companies Act, 1956, be taken into consideration."

DR. RAJAN SINGH (Baraset): Sir, I did not know that this Bill is coming up today, and it is only by accident that I am here. I fully support the Bill moved by Shri Panigrahi. I congratulate him for making such a fully documented speech.

I was a member of the Consultative Committee of the Department of Company Affairs some three or four years ago, when Shri Raghunatha Reddy was the Minister in charge of Company Affairs. There was a meeting of the Committee at Bangalore where Shri Himmat Singh of Rajya Sabha and myself raised demand for nationalisation of audit. In that very meeting, not surprisingly, the late Shri C. C. Desai, who was also a member of the Consultative Committee, who was himself a successful industrialist connected with big monopoly houses, a very nice and polished gentleman personally, opposed our stand. Though Shri Raghunatha Reddy accepted our position in principle, he raised certain procedural difficulties, the details of which I do not remember now. It is good that Shri Panigrahi has reminded me of that.

Many of us have received the memorandum submitted by the Chartered Accountants Association, which mainly consists of small firms, juniors who are eking out a miserable existence. They have sent copies of this memorandum to almost all the Members, though not all perhaps. Since I come from Calcutta, I had a talk with them at Calcutta when they explained some of the problems which they face, which corresponds to what Shri Panigrahi now says. They said that they are eking out a miserable existence because a major portion of the work is cornered by some houses of chartered accountants, who have more or less a monopoly, who are mostly in collusion with big industrial and commercial houses. Even though you have passed the Monopolies and Restrictive Trade Practices Act, because these houses of auditors are in league with the monopoly business houses, you are not able

to control them effectively. If you will make a probe, you will find that most of the monopoly industrial houses are connected, directly or indirectly, with these big audit houses. In Calcutta there are some big audit houses, dating back to the British days. In those days they were serving the multinationals like Calcutta Tramways or Andrew Yule, which is the direct descendant of the East India Company. That company used to have about 100 companies under it all over India, in almost all industries, be it tea garden, jute or coalfield. Of course, now metamorphosis has taken place of that company. These big audit houses are supporting and helping the big monopoly houses through audit. They are hand in glove with them. This has been corroborated by the Chartered Accountants' Association.

I had completely forgotten this, because I am no longer a member of the Consultative Committee of the Department of Company Affairs. I am glad that Shri Panigrahi has reminded me about it by this Bill.

The Association further stated that some of the Government officials were also a party to this. Of course, they did not say all the officials, because there are good officials also. Otherwise, how can the country be run? There are very many good officials, and that is why we are running this country smoothly more or less but there are officials who are in league with the audit houses. This is the third statement they made.

We have nationalised the coal and life insurance industries, for instance. Within the last ten years LIC has become a huge organisation. Our airlines are another empire. Who are behind these organisations? Some top officials. I do not call them bureaucrats. Some of these top officials must be colluding with these audit people; otherwise, how is it that in spite of nationalisation of these industries, only a few

houses are conducting the whole audit business. They are going on merrily as before. They do not suffer. The industry is nationalised, those industrialists go out, but these audit houses remain.

Secondly, it is known that many big houses keep two types of books. I heard it from Dr. B. C. Roy himself. I was a Member of the Legislative Assembly, when he was Chief Minister. One day we were talking about catching big business in his chamber, and he said: "Look here, you are a young man." It was in 1952-53, I was young then.

SHRI CHINTAMANI PANIGRAHI: Even now you are young.

DR. RANAN SEN: Only my hair is grey, absolutely grey.

He said, "You do not understand. You should have a little bit of experience. I also come from a small industry." He was connected with the Shillon Electric Power Supply Co., which is not a very big one. He said: "Big Marwari houses keep two sets of books."

SHRI M. C. DAGO (Pali): There are poor Marwaris also.

DR. RANAN SEN: Yes, I have been to Rajasthan. I have seen very poor Rajasthanis who are starving. I was holding meetings for seven days on behalf of my party, and I was shocked to find such poor Marwaris, poorer than even the poor Biharis. They must be the majority in Rajasthan, not the Birlas or the Singhanias who have their houses in Calcutta and Bombay and now in Delhi. After the meeting, these poor people used to say: "Why don't you drive them out of Calcutta, so that they come here and start business, and we can earn our livelihood?"

So Dr. Roy said that they were keeping two sets of books in collusion with audit houses. I said: "You are the Chief Minister. Why can't you catch

[Dr. Ramen Sen]

them?" He said: "You are an idealist. How can you do it? When you people come to power, you will do something. By that time I will be dead."

Therefore, I say this Bill should be supported by all us, and I am really grateful to Mr. Salve also I never associated him with big houses. We know each other very closely. He made the suggestion of nationalisation. That is the real remedy for this. But I understand the position of the Minister and the Government. There are many difficulties. Even a man like Shri Raghunatha Reddy with his lofty ideas had to point out the difficulties, though he agreed with us.

Mr. Panigrahi has made certain suggestions in the Bill which run short of nationalisation. I think the the Minister should be able to accept them, though not immediately. He should at least see how far they can be implemented. We are realists we do not say that our resolutions or Bills should be accepted by the Government immediately in toto.

We have got to process it so that the Government also wake up and see how things can be expedited.

With these words, I support the Bill

श्री भुलचन्द झा (बाली) : सभापति महोदय, आज यहाँ पर संविधान की बातें अधिक चल रही हैं। संविधान में "डिमोक्रैटिक सोशलिज्म" यह दो नये शब्द जोड़े जा रहे हैं। मैं इस समय इन दो शब्दों का अर्थ तो बतलाना नहीं चाहता लेकिन एक बात कहना चाहता हूँ कि मंत्री जी के सामने एक पूरी बात सामने आ गई है जिसका कोई न कोई इलाज ढूँढना चाहिए। जूनियर आडिटर्स ने एक मेमोरेण्डम दिया था जिसमें उन्होंने 7-8 बातें बतलाई थीं जिनका उत्तर साल्वे साहब भी देगे। और मैं भी अगले दिन जब अपनी स्पीच कटीन्यू करूँगा तो बतलाऊँगा।

श्री जयचमल बोडे (नागपुर) : सभापति महोदय, मुझे प्वाइंट ऑफ ऑर्डर रोज करना है जिसकी मुझे इजाजत चाहिए।

सभापति महोदय : किस विषय पर ?  
श्री जयचमल बोडे : आप इजाजत दीजिए, फिर बयान करूँ।

सभापति महोदय : मुझे मालूम हीना चाहिए। क्या इस डिबेट पर रोज कर रहे हैं ?

श्री जयचमल बोडे : जी हाँ।

सभापति महोदय, सदन में गैर-सरकारी सदस्यों का कार्य चल रहा है और बहुत ही इम्पॉर्टेंट इश्यूज पर डिस्कशन हो रहा है। डिस्कशन भी बहुत अच्छे ढंग से चल रहा है लेकिन इस समय कैबिनेट रैंक का कोई भी मिनिस्टर इस सदन में दिखाई नहीं देता है। यह इस हाउस के लिए बड़े शर्म की बात है। कि कैबिनेट रैंक का कोई मिनिस्टर नहीं और स्टेट मिनिस्टर भी नहीं केवल एक डिप्टी मिनिस्टर बैठे हैं।

दूसरी बात यह है कि हमारी अटेंडेन्स कितनी पछर है। कौन्सिल का मवाल तो आप बाज में रखिए लेकिन इस तरह से क्या हम इस सदन की गरिमा को गिराना चाहते हैं ?

सभापति महोदय : मैंने आपका प्वाइंट ऑफ ऑर्डर समझ लिया है। यह नियम कही भी नहीं है कि जब डिबेट चल रही हो तो वहाँ पर कैबिनेट मिनिस्टर ही उपस्थित रहें। लोक सभा के नियमों में अनुकुल उस विभाग के इनचार्ज उपमंत्री यहाँ पर मौजूद हैं इसलिए इसमें कोई प्वाइंट ऑफ ऑर्डर का प्रश्न नहीं उठता है।

### बी डागा

**श्री भूषबन्ध डागा :** सभापति जी जब कभी बोनस का सवाल आया तो हमने बार बार मांग की कि जो कम्पनीज है, जो कारखाने है उनका आडिट गवर्नमेंट के द्वारा किया जाये। जब कभी लेबर के बोनस की हम लड़ाई करने थे तो हमें कह दिया जाता था कि वार्टर्ड एकाउन्टेन्ट नै जो लिख दिया है वह सही है। हमने कई बार इस बात को कहा है और आज भी हमें मालूम है कि जो वार्टर्ड एकाउन्टेन्ट हैं उन्होंने मानौगली हाउसेज को कन्ट्रोल किया हुआ है। इसके कारण लोग काला धन जमा कर सकते हैं और सारे गलत काम कर सकते हैं। इन कामों को छिपाने के लिए कपनीज उनसे मिली हुई रहती हैं। इसके बारे में जैसा डा० गणेशन मेन ने कहा, मैं भी इसकी बाबत कई जजमेंट्स जो हाई कोर्ट्स न दिए हैं वह बता सकता हूँ कि किस तरह से यह लोग मिल करके, उनके साथ सम्बन्ध रख कर अपने काले धन को छिपाते हैं। इस प्रकार से उनका सम्बन्ध जुड़ा रहता है।

एकाउन्ट्स के मामले में एक और बहुत बड़ी खराबी है। एक बार जो एक फर्म का क्लाइंट बन जाता है उसको फिर वे छोड़ नहीं

सकते क्योंकि उनको डर रहता है कि हमारी फर्म का एकाउन्ट दूसरे को मालूम हो जायेगा।

इसलिए वे उसको कभी छोड़ना नहीं चाहते हैं। फर्म के अपने सीक्रेट डाकूमेंट होते हैं और एक बार जो आडिट करने वाला बन जाता है उसको वह छोड़ नहीं सकते। मैं समझता हूँ कम्पनी अफेयर्स में यह एक बहुत बड़ी कमी है।

मैं एकाउन्ट्स के बारे में एक बात और कहना चाहता हूँ, जब श्री चिन्तामणि जी इस बिल को लाये थे, शायद 1971 में उन्होंने इस बिल को पेश किया था, मैं चाहता हूँ कि अगली बार जब यह आये, तब तक वे कुछ अमेडमेंट्स भी दे दें या अभी भी उनको मौका मिलेगा, वे कुछ अमेडमेंट्स जोड़ दें।

**सभापति महोदय :** डागा साहब, आप अपना भाषण अगली दफा जारी रखियेगा।

18 hrs.

*The Lok Sabha then adjourned till Eleven of the Clock on Monday, August 16, 1976/Sravana 25, 1898 (Saka).*