



Securities Market - Role of Chartered Accountants

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Appointment and Duties

- Section 6 of the Chartered Accountants Act, 1949: Certificate of practice
- Chapter X of the Companies Act, 2013 (Sections 139 – 148): Audit and auditors.
 - Section 139: Appointment of auditors
 - Section 143: Powers and duties of auditors



Powers delegated to SEBI under the Companies Act, 2013

- **Section 24 of the Companies Act, 2013** - Powers of SEBI to regulate issue and transfer of securities, etc.
 - Chapter III - Prospectus and Allotment of securities
 - Chapter IV – Share Capital and Debentures



Role of CAs

- Responsible for evaluating validity and reliability of company's financial statements,
- Assesses the risks and helps in preventing fraud,
- Improves disclosures and accuracy,
- Infuses best practices.



Audit vis-à-vis SEBI

- Regular interactions with ICAI for enhancing accounting standards,
- Mandated internal audits of various market intermediaries (i.e. stock brokers, trading members, clearing members, etc.),
- Order forensic audit wherever required.



Expectations of SEBI from CAs

- Integrity of audit reports
- Take great care as investors in securities market are guided by the reports.
- Audit provides investors with additional assurance and helps in making investment decisions.



Actions by SEBI for safeguarding interest of investors

1. **Case I** : A SCN was issued by SEBI for the following:
 - Discrepancies in reversal of entries, improper books of accounts, inflated balance sheets, non-compliance with the auditing standards, etc.
 - The noticees raised objections on jurisdiction of SEBI before the Hon'ble High Court
 - Hon'ble High Court dismissed the petition and upheld the powers of SEBI investigation against the auditors of listed company.



Actions by SEBI (Contd.)

2. Case II: An order was passed based on the report of an independent auditor. The audit revealed that the noticee had fraudulently certified the annual report. The noticee was prohibited from issuing any certificate required under the securities laws and laws administered by SEBI for one year.

3. References are made to ICAI upon noticing discrepancies in the financial statements (i.e. balance sheets, profit and loss accounts, etc.) of the companies.



SEBI regulations relevant to CAs

SEBI (ICDR) Regulations, 2009

- **Regulations 26 and 68:** The issuer is required to furnish complete audited annual report and financial statements to the lead merchant banker and has to facilitate interaction with *inter alia* the auditors.
- **Regulation 73:** The issuer is required to submit a certificate of statutory auditor, in preferential issue stating that the issue is being made in accordance with the ICDR regulations.
- **Schedule VIII:** The complete details of the auditors is required to be stated in the offer document.



SEBI regulations (Contd.)

SEBI (LODR) Regulations, 2015

- **Regulations 4:** In financial statements, accounting standards be implemented in letter and spirit and the annual audit be conducted by an independent, competent and qualified auditor.
- **Regulations 18 :** Audit Committee to recommend appointment of auditors and review the financial statements/ auditors report before submission.
- **Regulation 33 and 52 :** Company has to ensure the audit reports submitted to exchanges are by auditor who has subjected himself to the peer review process of ICAI.
- **Regulation 34 and 53 :** Annual report of the company should *inter alia* contain audited financial statements.



SEBI regulations (Contd.)

SEBI (PIT) Regulations, 2015

- **Regulations 9:** persons including auditors who are required to handle UPSI in the course of business operations are required to formulate a code of conduct to regulate, monitor and report trading by employees and other connected persons.
- **Schedule B:** Timings of the trading window are also applicable to the auditors.



SEBI regulations (Contd.)

SEBI (PFUTP) Regulations, 2003

- **Regulations 3** (Prohibition of certain dealings in securities): No person shall

“(b) use or employ, in connection with issue, purchase or sale of any security listed or proposed to be listed in a recognized stock exchange, any manipulative or deceptive device or contrivance in contravention of the provisions of the Act or the rules or the regulations made there under;

c) employ any device, scheme or artifice to defraud in connection with dealing in or issue of securities which are listed or proposed to be listed on a recognized stock exchange;

(d) engage in any act, practice, course of business which operates or would operate as fraud or deceit upon any person in connection with any dealing in or issue of securities which are listed or proposed to be listed on a recognized stock exchange in contravention of the provisions of the Act or the rules and the regulations made there under.”



SEBI regulations (Contd.)

SEBI (PFUTP) Regulations, 2003

- **Regulation 4** (Prohibition of manipulative, fraudulent and unfair trade practices):
 - (2) Dealing in securities shall be deemed to be a fraudulent or an unfair trade practice if it involves fraud and may include all or any of the following ..
 - (e) any act or omission amounting to manipulation of the price of a security;
 - (k) an advertisement that is misleading or that contains information in a distorted manner and which may influence the decision of the investors;
 - (r) planting false or misleading news which may induce sale or purchase of securities.



THANK YOU