ORIGINAL RESEARCH PAPER

Commerce

ROLE OF ACCOUNTING AND AUDITING IN CORPORATE GOVERNANCE

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ABSTRACT

This paper examines the role of accounting and auditing in corporate governance. This paper shows that accounting and auditing plays a very important role in corporate governance and helpful in achieving good governance.

Introduction

Good corporate governance (GCG) in a corporate set up leads to maximize the value of the shareholders legally, ethically and on a sustainable basis, while ensuring equity and transparency to every stakeholder – the company's customers, employees, investors, vendor-partners, the government of the land and the community. GCG is a must for ensuring the required values to different stakeholder groups. It enhances the performance of corporations, by creating an environment that motivates managers to maximize returns on investment, enhance operational efficiency and ensure long–term productivity growth. Consequently, such corporations attract the best talent on a global basis. It also ensures the conformance of corporations with the interests of investors and society, by creating fairness, transparency and accountability in business activities among employees, management and the board.

Accounting is a process of compiling information for reporting the internal affairs of any entity to different stakeholders at the end of a certain interval. It is defined as the language of business and can play a vital role for ensuring and continuing with GCG. As a discipline, accounting practice is highly controlled by accounting standards in a global set up. As accounting becomes an international discipline and the practice of accounting is harmonized aligned with the varied needs of stakeholders, it can be used as a tool for ensuring good governance within a corporate setup.

Objectives of the study

- To find out the role of accounting in corporate governance.
- To find out the role of auditing in corporate governance.

Research Methodology

The study focuses on extensive study of secondary data collected from various books, National &International journals, government reports, publications from various websites focused on various aspects of corporate governance.

Below points highlights the role of accounting in corporate governance.

Project Planning

Accounting practices are highly effective as an instrument of corporate governance. Corporations can make advantageous and intelligent decisions about how to operate, when to expand and how much to invest in a project when management has accurate accounting data.

Public Responsibility

Unlike private companies, publicly traded corporations have legal responsibilities to disclose their business practices to the outside world. Such corporations must release accurate and honest financial statements every three months, including the balance sheet, the income statement and statement of shareholders' equity. Investors use these statements to decide whether to buy shares in the corporation. Government agencies also require these statements to determine if the company is disclosing its operations fully. Accounting practices are vital in producing these important statements.

Shareholder Responsibility

In addition to their responsibilities to the market and the government, corporations also are required to release detailed financial information to shareholders. Company decisions influence whether shareholders buy, hold or sell their shares in the firm's stock. Shareholders rely on the financial statements compiled by the accounting department to make the most intelligent decisions, both for themselves and for the company.

Income Management

Nearly every decision a corporation makes depends on the quality and accuracy of its accounting data. The data help companies manage their assets, prioritize their projects and make intelligent choices. Managers rely on accounting data to show them how much income they have, where it comes from and when they can expect to receive it. This data informs them on when and if they can hire new employees, acquire more equipment or take on more debt.

Below points highlights the auditing role in corporate governance
Corporate governance involves decision making, accountability and monitoring.

Decisions require relevant and reliable information and through auditing firm's are able to get reliable information.

Accountability involves measuring, reporting and transparency and all these things can be made available to management through auditing.

Monitoring involves systems and feedback so feedback can only be get through good audit plan.

The main objective of auditing is to examine the financial statements and supporting records using sound auditing techniques which is helpful for achieving good governance.

One of the primary role of auditing is to protect the interests of shareholders. This is because external audition reports are conducted independent of the company's influence.

Conclusion

This paper shows that accounting and auditing plays a very crucial role in corporate governance. Corporate governance involves decision making, accountability and monitoring. Accounting is helpful in project planning, public responsibility, shareholder responsibility and Income management. On the other hand, auditing involves measurement of accuracy, transparency and reporting. So both auditing and accounting are require to achieve good governance practise.

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