

Evolution of Audit in India – A Review

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1. Introduction

Auditing as an act of checking is supposed to evolve in the period of Mesopotamian Civilization 3600-3200 BC. Mesopotamian relic of commercial transactions reveal tiny masks, dots, ticks and circles at the side of the figures, indicating those figures had been checked (Kenneth S. Most, 1959). The ancient Egyptians engaged two officials in recording fiscal receipts while another official conducted their audit. The Greeks appointed checking clerks to scrutinize the accounts of public official at the expiry of their term in office. The Romans established strong and effective financial administration authorized a person for expenditure and held the other person responsible for actual receipts and payments. They also introduced checking and counterchecking within the system (T.C. Richard Brown and E.C. Jack(eds), 1905) . Pre-Vedic and Vedic literature contain numerous references which indicate that accounting practice existed in ancient India.

In Valmiki's Ramayana, there are instances when Bharata meets Rama in exile in the forest, the latter asks the former about the income and expenditure of the state (Ayodhya Kanda, Sarga 100). In Mahabharata, King Yudhishtira orders his brother Nakula to look after the army's accounts (Mahabharata, Shanti Parva, Sarga 40) . Discussions in the Reek Vedas on matter like the system of land; tenure, currency trade and various economic rights indicate that a system of record keeping existed at that time.

2. Developments in India during Mauryan period

The State revenue and expenditure were well managed in time of Mauryas and other Hindu king. In his classic work, *Arthashastra*, Kautilya gave details of state finance. According to him, 'all undertakings depend on finance. Hence, foremost attention

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shall be paid to the treasury'(R.Ramashastri (trans),Kautilya's Arthashastra,p.58.and M.S.Ramayyar,Indian Audit and Accounts Department, The Indian Institute of Public Administration,NewDelhi,1967,p.60). In his work, he classified the 'major & minor heads of accounts of the government and listed forty kinds of fraud and embezzlements and also prescribed punishments for the same. Historians are unanimous in their opinion that the office of the chief accountant of the Mauryan Empire was well organized'(Kamal Gupta,2005.p.2).

There is evidence that a well administered accounts & audit existed during the Gupta period. The Gupta rules could levy a tax on profits instead of one on capital (Kamal Gupta,2005).In medieval India, the Sultans in Delhi authorized Mushrifs and Mustaufis for keeping up accounts and audit for the state. A similar arrangement was maintained under the Mughals (Kamal Gupta, 2005).

3. Pre Independence Audit Developments in India

Traditionally Indian Companies Act was framed following the British model. The Joint stock Companies Act of 1857 in its Table A contained provisions which were optional for annual audit of company accounts (Kamal Gupta,2005.p.3). In the Act of 1882, regarding audit of accounts it was stated (a) in every report , the auditor shall state whether in his opinion balance sheet is prepared as per regulations and with satisfactory explanations or information as provided by the management so as to exhibit a true and fair view of the state of affairs. [Clause.94]. (b) the auditor shall examine copy of balance sheet with supporting vouchers and accounts as supplied by the management.[Clause.92]. The Companies Act of 1913 made audit of company accounts compulsory. This Act contained specific provisions for the preparation and presentation of proper books of accounts including contents of the balance sheet and its authentication. It also laid down provisions for the qualification, appointment, power and duties of the auditor. 'According to Section 144 of the Act only a person holding a certificate from the local government or a member of an association or institute recognized for this purpose could act as an auditor'(Kamal Gupta,2005.p.3). Regarding audit of accounts the Act provides that the auditor on the basis of information supplied and according to the best information given to him and as shown by the books of accounts shall state in his report whether the balance sheet exhibits true and correct view of the state of affairs of the company [Section 145(2)]. The Act also provides that the auditor shall have right of access at all times to books of accounts and vouchers and shall be supplied with such information and explanations by the directors and officers of the company as may be necessary in the conduct of audit of financial statements [Section 145(1)].

In 1918, the Government of Bombay initiated a scheme for the training of entrants to accounting profession. Accordingly, a qualifying examination (known as Government Diploma in Accountancy, GDA) and an articleship of three years were proposed. This scheme was approved by Government of India as a qualification to grant 'unrestricted certificates' issued to holders to practice throughout British India(Kamal Gupta,2005..p.3).

'The situation that the Provincial Governments were concerned with preparing the qualified account was abolished in 1932 when Central Government, set up Indian Accountancy Board under the Auditor's Certificate Rules 1932.Under this rule, persons to be qualified accountant had to obtain Registered Accountants(R.A.)Certificate'(Dr.B.K.Basu, June 2004,p.1.3).The Companies Act of 1936 added that the auditor's report should state in addition, whether or not books of accounts have been kept as required by Section 130[Section145(2)] .

4. Post Independence Audit Developments in India

With the growing importance and increasing number of professional accountants in India, the demand for an autonomous body to regulate and control the accounting profession was observed. In 1949, The Chartered Accountants Act was passed as per act of parliament and a council consisting of elected representatives of chartered accountants and nominees of the central government was formed to deal with the affairs of the profession. Now, the profession evolves its own standards of education, training, professional expertise, ethics and discipline under overall supervision of the central government (Kamal Gupta.p.3-4). The Constitution of India (1950) gave an independent status and special powers to Comptroller and Auditor General of India(C&AG) .In 1971, the Comptroller &Auditor General (Duties, Power and Conditions of Service) Act was passed to regulate the duties and powers of C&AG to audit the Government accounts (Kamal Gupta.p.3-4).

The Companies Act 1956 and its subsequent amendments in 1960, 1965, 1966 and Companies (amendment) Act 1988,1999 and 2000, 2013 have further developed and elaborated the provisions regarding qualification, appointment and remuneration of statutory auditor and also the scope of annual accounts and audit report.

The Companies Act of 1956 lays down that the auditor on examination of financial statements including balance sheet, profit and loss account , other documents shall report in his opinion and to the best of information supplied to him whether the said financial statements represent true and fair view of the state of affairs and working results of the company. In his report he will also give some narrative details concerning one or more aspects of management presentations including the mode of supply of information

and explanation necessary for his audit, the nature of maintenance of books of accounts by the management, branch audit report received from branches under section 228 of the Act. 'These narratives may be of great use in enhancing users' comprehension of published financial information' (Priya Ranjan Chaudhury 2001, p.46.).

The auditor shall again report whether company's balance sheet and profit and loss account are in agreement with the books and returns[Section 227(2) & (3)]. He shall also state about the compliance with the accounting standards by the management in the preparation of balance sheet and profit and loss account as per section 211(3C). [Section 227(3)(1) (d)]. In the audit process, he will exercise right of access to books of accounts and vouchers of the company kept at head office or elsewhere. He shall also inquire whether sufficient securities have been held against loan and advances made by the company, whether any transactions have not been prejudicial to the interest of the company, whether the company is not an investment company, whether securities have been sold at less than the purchase price, whether loan and advances have been treated as deposits, whether personal expenses have been charged to revenue accounts, whether proper disclosures have been maintained against allotment of shares etc[Section 227(1) & (1-A)].

It may , however, be pointed out in this regard that the auditor's comment on whether the company complies with relevant accounting standards in the preparation and presentation of financial statements will enhance the quality of information contained in the annual reports. This provision has been added by amending the Act recently in1998.

In 1959, The Cost and Works Accounts Act was passed to recognize a profession specialized in Cost Accounting. According to Section 233B of the Companies Act 1956, the practicing member of the Institute of Cost and Works Accountants of India (ICWAI) are qualified to carry out cost audit and compulsory cost audit for specified companies which require proper maintenance of cost records and audit of cost statements (Kamal Gupta.,200.,p.4).

In 1984, Income Tax Act was amended for the purpose of conducting compulsory audit of accountants of certain assesses. In 1985, The Reserve Bank of India (RBI) issued a circular to the commercial banks that their large borrowers should get their accountants audited. Some states of India have also modified their sales tax laws providing for audit of accounts of certain assesses(Kamal Gupta.,200,p.4).

5. Conclusion

In India, Pre- Vedic and Vedic literatures (including Ramayana, Mahabharata and also in Reek Vedas) include numerous references indicating accounting practices existed in the ancient India.

Accounting in a more matured state was found in Arthashastra (R.Ramashastri(trans) etc,p.60.) by Kautilya wherein a detailed study was made about the State finance System. Professional accounting in India emerge on the enactment of Joint stock Companies Act in 1857. The Companies Act of 1913 made audit of company accounts compulsory. In 1949 the Chartered Accountants Act was passed as per act of parliament and a council was constituted to issue its own standards of education, training, professional expertise, ethics and disciplines under overall supervision of the central government. The Constitution of India (1950) conferred an independent status and special powers upon Comptroller and Auditor General of India. In 1971, The Comptroller and Auditor General (Duties, Powers and Conditions of Services) Act was passed to regulate the duties and powers of C&AG to the audit of government accounts. Thereafter, The Cost and Works Accounts Act and Income Tax Act were passed in the year 1959 and 1984 respectively. There are numerous provisions introduced in Companies Act 2013 effective from 1st April 2014 dealing with internal financial control[section 134(3) & (5)], business relationship of the auditor(section 141),other services of the auditor (section 144),rotation of auditor and audit committee recommendation (section 139), complying with auditing standards, audit report and fraud reporting (section 143) , National Financial Reporting Authority(NFRA) with extended authority for maintaining quality of audit practices (section 132), punishment for contravention (section 147),fraud (section447) which are directly or indirectly guiding audit functioning towards improvement of audit quality.

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