

**Audit will be there as long as Economic / Non - economic activities are there on planet**



**By**



**CA. (Dr.) Adukia Rajkumar Satyanarayan**

Your Candidate for Central Council Election (ICAI-WIRC) 2021 requesting your FIRST/BEST preference vote to Ballot No. 1 on my credentials and proven record and performance and let us contribute to make India No. 1 economy in world by making contributory services in all levels of economic activities, policy making initiatives through you and ICAI

- **MY MISSION IS TO TRANSFORM CA PROFESSION - MAKE EVERY CITIZEN ECONOMICALLY POWERFUL & INDIA THE MOST POWERFUL NATION OF WORLD!**
- **MY PASSION IS TO MAKE EVERY CA MEMBER & STUDENT SPEAKER & WRITER!**

Author of more than 300 books & Global business, professional growth and motivational coach  
Passionate to make anyone Speaker, Writer, Acquiring New Knowledge ,Professional Qualifications ,  
Growth in Business & Promotion As CEO

Member IFAC-PAIB committee 2001-2004; Member IFRS SMEIG London 2018-2020

Ex-director - SBI mutual fund, BOI mutual fund, global mediator and international arbitrator

Completed Article ship with S. V. Ghatalia & Associates

B. Com (Hons), M.Com, FCA, FCS, FCMA, LL.B, LLM(Constitution),Dip CG, MBA, Dip IFRS (UK),  
DLL&LW, Dip IPR, Dip in Criminology, Ph. D, Mediation ,IP(IBBI), MBF, Dip HRM, Dip Cyber Law

20+ Certificate courses; 75+ Self Development Courses

Student of: MA (Psychology), MA (Economics), PGD CSR, PGD Crime Investigation IBBI (RV)

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Ranks ALL INDIA 1<sup>st</sup> in Inter CA; 6<sup>th</sup> in CA Final; 3<sup>rd</sup> in CMA Final, 5<sup>th</sup> in Mumbai University +++

Chairman western region ICAI 1997; Council Member ICAI 1998-2016

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Kindly, visit the link given below to view my election manifesto

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**By giving your most valuable First/Best Preferential Vote to me, I vouch you yourself will be the member of the council!**

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## **Introduction:**

The word "AUDIT" has Latin origins. It is derived from the Latin term 'audire,' which means to hear as back then auditor used to listen to the accounts read over by an accountant in order to check them.

In general, it is a synonym to control, check, inspect, and revise. From the time of ancient Indians, Egyptians, Greeks, Mesopotamia and Romans, the practice of auditing the accounts of public institutions existed. Even the Vedas contain reference to accounts and auditing.

In Valmiki's Ramayana, Lord Rama asks Bharat, when they meet in forest if his income was more than his expenditure. Similarly, in Mahabharata we find

mention of King Yudhishtra asking his brother Nakula to oversee Army Accounts. At that time audit was ordered by the Kings, emperors or Churches and were conducted by the people of the state or scribes.

Arthasashthra by Kautilya detailed rules for accounting and auditing of public finances. He developed not only bookkeeping rules but also the procedures for preparing periodic income statements and budgets and performing independent audits. He proposed the establishment of two very important offices to monitor and manage the financial health of the state: the positions of Treasurer and Chief Comptroller Auditor. Both were to be very well paid, and in turn they were to be incorruptible and efficient. It is very interesting to note that Kautilya divided financial responsibility between the Treasurer and the Comptroller-Auditor. Both were supposed to report directly to the king. He proposed the establishment of a reasonably complete system of governmental accounting comprising: bookkeeping rules, accounting conventions, financial reports, periodic accounting and independent auditing to increase compliance. He prescribed that the Chancellor and the Treasurer would be paid 24000 panas annually as compared to 60 panas, the yearly minimum wage for an unskilled worker, so as to be "enough to make them efficient in their work."

Later, in 1494 Luca Pacioli published the book on double entry bookkeeping system of accounting used by merchants in Venice, Italy. This was the first internationally acclaimed book on accounting. Luca Pacioli is largely regarded as father of double entry system of accounting, even though the scholars of Kautilya's Arthashahtra like Mattessic, places it at par with Pacioli's work.

## How it evolved?

In the evolution of Audit Process, later in 18<sup>th</sup> century, checking clerks began to be appointed by States or Courts, to check the public accounts. To locate frauds as well as to find out whether the receipts and payments are properly recorded by the person responsible was the main objective of auditing of those days. In second half of 18<sup>th</sup> century, with industrial revolution taking place, the sizes and complexities of enterprises increased many fold and thus necessitated joint-stock form of organizations and audit began its evolution into a field of fraud detection and financial accountability by professionally trained people. The most significant development in auditing came about during the Industrial Revolution. Consequent to the socio-developments, the **Joint Stock Companies Act** was passed in 1844 and for the first time, the appointment of auditors was made mandatory. However, back then auditor was not required to be an accountant or independent, until 1900 when a new Companies Act was passed that required an independent auditor.

The developments lead to establishment of the First public accountants organization which was known as the Society of Accountants in Edinburgh, formed in 1853. In the same year the **Institute of Accountants and Actuaries in Glasgow was formed and a little later the Aberdeen Society of Accountants** was formed in 1867. These three bodies merged to form the Institute of Chartered Accountants of Scotland in 1951. Besides, the **Institute of Chartered Accountants in England and Wales (ICAEW)** was established by royal charter in 1880 and the American Association of Public Accountants was formed in 1887, which later became American Institute of Certified Public Accountants (AICPA).

In India, the Office of the Comptroller and Auditor General has its beginnings in 1858 as the British Crown took over the reins of governing British India from the East India Company. The first Auditor General (Sir Edward Drummond) was appointed in 1860 and had both accounting and auditing functions. Departments of Accounts and Audit were created (reorganized) in 1862.

The Government of India Act, 1919 provided for 'Auditor General in India' responsible for the audit of expenditure in India from the revenues of India. This Act is a landmark in the history of the Audit Department as the Auditor General came to be statutorily recognized. Through the Government of India Act of 1935, he was designated as the Auditor General of India and was appointed by the King of England, thereby cementing the independence enjoyed by the post in the years to follow. The Government of India Act, 1935 also laid down the provisions for appointment and service conditions of the Auditor General. The detailed accounting functions were specified in the Audit and Accounts Order of 1936. Post -independence, Articles 148, 149, 150 and 151 of the Constitution of India, defined the basic structure of the institution of the CAG of India. Four categories of field offices existed within the Audit Department namely Civil, P&T, Railways and Defense Services.

### **The Institute:**

Soon after independence, the Institute of Chartered Accountants of India (ICAI) was established under the Chartered Accountants Act, 1949 passed by the Parliament of India with the objective of regulating accountancy profession in India. ICAI is the second largest professional accounting body in the world in terms of membership after **American Institute of Certified**

**Public Accountants (AICPA).** The ICAI is one of the founder members of the International Federation of Accountants (IFAC). ICAI constituted the Auditing Practices Committee (APC) on 17th September 1982, to review the existing auditing practices in India and to develop Statements on Standard Auditing Practices. It later came to be known as Auditing and Assurance Standards Board (AASB). AASB reviews the existing and emerging auditing practices worldwide and identifies areas in which Standards on Quality Control, Engagement Standards and Statements on Auditing need to be developed and issue them under the authority of the Council of the Institute. It also issues Guidance Notes, Technical Guides, Practice Manuals, Studies and other papers under its own authority for guidance of professional accountants and auditors whenever required.

It is pertinent to note that from the year 1857 till date, all these Companies Act enactments have recognized the mandatory requirement relating to Accounts and Audit of accounts of the companies in India. Chapter X Audit and Auditors (Section 139 to Section 148) of Companies Act, 2013 contains provisions related to audit of financial statements of companies. This chapter includes provisions, inter alia, regarding appointment, resignation, removal, rights and duties of the auditor.

- Section 139 of the Act that deals with the Appointment of the Auditor prescribes that every Company shall appoint an individual or a firm as an auditor who shall hold office from the conclusion of that meeting till the conclusion of its sixth annual general meeting and thereafter till the conclusion of every sixth meeting. The manner and procedure for selection of auditors by the members shall be as prescribed and the

matter relating to such appointment for ratification by members at every annual general meeting.

- Section 143(2) casts a duty on the auditor to make a report to the members of the company on the accounts examined by him and on every financial statements which are required by or under the Act to be laid before the company in general meeting and requires that the report shall after taking into account the provisions of the Act, the accounting and auditing standards and matters which are required to be included in the audit report to the best of his information and knowledge, state that the said accounts and, financial statements give a true and fair view of the state of the company's affairs as at the end of its financial year and profit or loss and cash flow for the year and such other matters as may be prescribed.
- Section 143(3) casts some additional reporting requirements on the auditor including the requirement that the auditor report shall state as to whether the company has adequate internal controls over financial reporting (ICFR) with reference to financial statements in place and the operating effectiveness of such controls.
- Section 143(11) empowers the Central Government in consultation with NFRA, to specify certain matters to be included in the Auditor's Report. Accordingly, the Companies (Auditor's Report) Order (CARO) has been issued from time to time.

The Companies Act 2013 states that auditing standards issued by the ICAI, and subsequently approved by the Ministry of Corporate Affairs, are mandatory for the audit of financial statements of companies in India. As of date, there is a single set of auditing standards issued by ICAI which is



applicable for all type and size of companies and are to be applied whenever an independent examination of financial information is carried on for *ANY* entity whether the business motive is to make profit or not, whether the size of the entity is big or small or even if the entity has does not have any legal form (unless any law specifies something else).

Auditing Standards in India are in line with the International Standards issued by the International Auditing and Assurance Board (IAASB) and even their numbering is akin to International Standards.

In all there are 45 standards.

- 1. Standards of Quality Control (SQCs):** This is a single standard SQC 1 which is for all the services under Engagement Standards. These standards are applicable to all auditing firms which perform audits and reviews of historical financial information including assurances and related service engagements.
- 2. Standards on Auditing (SAs):** There are 37 SAs for auditing historical financial information. These apply whenever any independent Audit is carried out.
- 3. Standard on Review Engagements (SRE):** There are 2 SREs for review of historical financial statements.
- 4. Standard on Assurance Engagements (SAE):** There are 3 SAEs for assurance engagements other than audit and review.
- 5. Standard on Related Services (SRS):** There are 2 SRSs applicable to agreed upon procedures regarding financial information.

ICAI has so far ensured that its members are recognized world-wide for their professional insight and skepticism and thereby have a bright present and future in field of Audit.

### **An auditor's task is to take 360 degree review of entity**

Auditors due to their nature of job, experience and training acquire a 360 degree view of environment in which any business entity operates. They have capability to perform in a manner that they can provide the client with value additions that may worth many times the cost of audit to the client. Let's discuss some of the Standards on Auditing which highlights how audit profession, if conducted in true spirit can be boon for any enterprise, whether or not they fall under requirement of mandatory audit or not.

- (SA) 240, *"The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements"*, deals with the auditor's responsibilities relating to fraud in an audit of financial statements.

An auditor conducting an audit is responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error? The auditor should design and perform further audit procedures whose nature, timing and extent are responsive to the assessed risks of material misstatement due to fraud. It is important audit function as fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users by influencing their perceptions as to the entity's performance and profitability.

- *SA 250 Consideration of Laws and Regulations in an Audit of Financial Statements* deals with the auditor's responsibility to consider laws and regulations when performing an audit of financial statements.

It is a very important aspect of audit profession which is a real value addition for clients, as laws and regulations to which an entity is subject constitute the legal and regulatory framework and their non-compliance may result in fines, litigation or other consequences for the entity that may have a material effect not only on the financial statements but also on smooth functioning of the enterprise.

- *(SA) 260, "Communication with Those Charged with Governance"* deals with the auditor's responsibility to communicate with those charged with governance, irrespective of an entity's governance structure or size.

It recognizes the importance of effective two-way communication. The SA besides prescribing that auditor must obtain from those charged with governance information relevant to the audit, stresses that auditor must provide those charged with governance with timely observations arising from the audit that are significant and relevant to their responsibility to oversee the financial reporting process. The auditor must communicate his views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures. Any business benefits if auditor provide his insight on the practices being followed by the entity. Any short comings if communicated timely and properly can lead to prevention of losses to the entity.

- *SA 265, “Communicating Deficiencies in Internal Control to Those Charged with Governance and Management”*, deals with the auditor’s responsibility to communicate appropriately to those charged with governance and management deficiencies in internal control that the auditor has identified during audit to assist them in taking timely remedial action to minimize the risks of material misstatement.

It can be an important value addition for the entity as an effective internal control is a prerequisite for any organization to realize its mission.

- *SA 570, “Going Concern”*, deals with the auditor’s responsibilities in the audit of financial statements relating to going concern and the implications for the auditor’s report.

The auditor is required to obtain sufficient appropriate audit evidence regarding the entity’s ability to continue as a going concern. In the process, of gathering such evidence if auditor comes across any uncertainty that exists, even though not material, he may communicate to the management and timely remedial action can prevent entity from collapse. This standard expands the role of auditor immensely as it requires the auditor to look beyond the mere authenticity of financial statements and comment on future viability of the entity.

Companies’ business models are growing more complex as they move through digital transformation, and this is placing new demands on audit professionals too. Gradually, digital technologies and data analysis have become integral part of the business models as well as audit process, audit firms will require a more diverse range of skills specially expertise in technology.

On this note I would like to impress upon the use of technology. We shall make maximum use of technologies and social media, we are already heavily reliant on the technologies and the younger generation is by default growing in the world surrounded by innovation, we can definitely use this advantage to reinvent our expertise.

Having an audit team with diversified knowledge base and understanding of divergent fields like hedge accounting, valuation, cyber security, fraud, sustainability, tax and corporate finance expertise, can be an enormous asset in providing high-quality audit services. For which we auditors will need to develop deeper knowledge of business and technologies and have an agile mindset that can embrace changes and disruptions.

### **More flexibility is required**

Increased flexibility can bring increased benefits in terms of output and productivity and bring cultural change in organizations making it open to different ways of working.

For glory of this profession to continue for each and every professional, certain rationalization in regulatory framework is desired.

For instance recent RBI notification dated April 27, 2021 on *Guidelines for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs*, come as a major setback for smaller chartered accountants and sole proprietorship firms. As per the circular, sole CA practitioners, which constitutes around 70% of the total practicing firms, would be left dry handed and there would be concentration

of work in hands of few. RBI should reconsider this notification as audit is a professional job that primarily depends on individual skepticism and not necessarily on number of hands. There are many experienced Chartered Accountants, who as matter of their Goodwill and preference, believe in retaining their practice in form of sole proprietorship and it is not prudent to presume that they are incapable of performing these audits.

A recent consultation paper issued by National Financial Reporting Authority (NFRA), on 29th September 2021, which raises questions on requirement of mandatory audit requirement for Micro, Small and Medium Companies (MSMCs), has created sensation among the Audit community.

I see the NFRA Consultation paper dated 29th September 2021 on Statutory Audit and Auditing Standards for MSMCs as an opportunity rather than any threat. The importance of Audit of an organization is perhaps as same as what is oxygen for human being. It is a 360 degree \review of all the organization working and to speculate whether the organization can expand or if there is some cost cutting to do. Therefore, I view the consultation paper as a chance to relook at our services, to enhance the quality and benefit of our services to stakeholder and overall society.

My detailed response can be accessed at <https://cadrrajkumaradukia.com/resource/Image/ConsultationpaperissuedbyNFRAandImportanceofAudit.pdf> and the same is also available on my website [www.cadrrajkumaradukia.com](http://www.cadrrajkumaradukia.com)

