

ROLE OF AN ACCOUNTANT AND AUDITOR IN NATIONAL ECONOMY

Following is a reproduction of the excerpts of the speech delivered by first Comptroller & Auditor-General of Independent India (1948-54) Shri V. Narahari Rao at the First Conference of Chartered Accountants of India, in the afternoon session on 5th April 1954. While introducing Shri Rao to the august gathering at the Conference, the-then ICAI President Shri S. B. L. Vaish had said: (Shri Rao) *is...the greatest architect and authority as far as auditing is concerned in this country. He has obliged us on many an occasion in the past with his valuable advice and guidance in the matter of discharge of our duties as professional accountants. Shri Rao delivers a very illuminating and interesting talk on a difficult topic of the role of an accountant and auditor in economy. Read on:*

Mr. President and friends, I thank all of you for giving me this opportunity of meeting you today. I had no notice and I do not know on what subject I am to speak to you. I have no particular subject to talk to you about. When I was invited to come and spend some time with you and talk to you, I had great hesitation and I said I did not know what you wanted me talk about. I was told, "Anyhow, please come along." And so, I did not like to deny myself the pleasure of being with you. Gentlemen, I cannot say anything about my profession because I do not think I have a profession at all either of an accountant or of an auditor. I do not know whether I am an accountant or an auditor although I am believed to be functioning as both, not too badly.

As you may know, the Government auditor in other countries is not a highly technical man, in fact, not such a technical man as in India. In India, we find a great deal of trouble to produce what we call an accountant or an auditor or both. We have our difficulties and our defects. I do not think the Indian Audit Department had a more fierce critic than myself. I have not been sparing the Government or the Government officials and, of course, I regard my own department and its methods as also liable to criticism. The only thing is I do not publicly criticise my own people. It is not necessary. I do not think that anything is perfect in this world and we do not claim perfection but we do our bit. The Audit Department in this country has a history of over 100 years, I mean audit and accounts...

I do not know if many of you are interested in how the Government accounts are kept. The Government system of auditing has also come in for a certain amount of criticism not because it is basically wrong but because the times have changed and under a system of departmental control it is necessary to have this completely separated in order that it may introduce what is called "the external control". Those are very intricate matters. All the same, I recommend to you study of a book called "*An Introduction to Indian Government Accounts & Audit*¹," because I think it is desirable that



Shri V. Narahari Rao

(The author was first Comptroller & Auditor-General of Independent India (1948-54))

¹ Originally written by Sir Frederic Gauntlett

you should know something about it since I hope it will be possible in due course for you to be associated with Government Accounts and Audit when the Government increases its commercial activity and establishes industrial concerns, factories and things like that with State finances. For the accounting of the transactions of factories and things of that sort, it is very desirable or it may be found necessary by my successor to utilise a number of persons trained in your profession, trained in your way rather than our way. But then, of course, you will have to learn many things relating to my way also, namely, to discharge your duties without fear or favour and even to go behind the Directors' Minutes. You don't ordinarily do this now and don't think I am blaming you for that. I have said I have not come to teach you anything because I am not an accountant or an auditor in the commercial sense, but still I claim I have a system of accounting and auditing that is good enough. But the thing is you have to know something about our side of the business when you come over. It won't do for you when you go to audit any of the factories of the State which is spending 15 to 20 crore of rupees a year, and content yourself with seeing the sanction of the Directors, for example, to the purchase of 20 trucks at a cost of X Rs. No, you have got to see deeper, go behind that and see how they should have been purchased, should satisfy yourself that the lorries and the trucks were purchased new and at the lowest price possible, you should see that they have been inspected and checked by competent people to ascertain that no old ones were painted and presented as new. There have been instances of old vehicles being painted and sold as new. Such questions would arise and you may have to go into them. I personally feel that that time would come and I hope it will come soon. You have in this country, so far as the chartered accountant's profession is concerned, more or less the British pattern and, therefore, I take it, that you do not go behind the Directors' Minutes and demand answers to your searching questions. We do it and we don't spare anybody. In the same way I wish that you should have the power to know and ask for something behind the papers, behind the Directors' sanction so that you may do your job with all the materials before you. I do not see why even in the case of companies you should not be in a position to go and say, "Well, these bad things have been done". Notwithstanding the fact that you have been appointed by the shareholders we all know that, after all, the Managing Director has a very big hand in the affairs of the Company and it is impossible to go against him. It is assuming a lot of human nature to expect the commercial auditor or the accountant to be very strict. You have a very difficult task to perform.

Your task is, in this respect, more difficult than that of the Government Auditor because the Government Auditor is quite safe – at least as long as he does his job to my satisfaction. He may at times go wrong. After all, we are dealing with some 20 thousand crore of rupees and there are a few jokes against my men and those jokes are for after-dinner speeches between ourselves, while talking exclusively to ourselves. But we don't bother about that. The real trouble about the private audit is that you are not in a position to probe deeply enough and it is in the national interest that you should be in a position to do so and it is necessary, therefore, to devise some means which can ensure that independence first. You say that something has been done by establishing a Council under the Chartered Accountants Act and the gentlemen of the Council are in a position to punish anybody who has misused his position and so on. Yes they are in a position to punish, but are they in a position to secure that the poor man will not lose his job if he does his work fearlessly? (Cheers). Are they in a position to ensure that the man who prospers in the profession is not the man who breaks all the codes of ethics and all the rules and encourages black-marketing? Sincerely that is the point I would like you, gentlemen, to consider because that is very important. Otherwise, you will see that in the profession, with all the Council that you have and all the paraphernalia, there is much sorrow, many tears behind, and that should be avoided. I am saying all this because this has been the subject to which I have been giving thought for some time...

I am not boasting here about the little good that we did, but what I do want to point out is the state of mind of the men in the profession and what you can do to help to remove their apprehensions and their insecurity. I do not know whether it is proper for you to do some loud thinking here, but I have done a certain amount of thinking and I propose to you to do some loud thinking. My only desire is that this Council and the gentlemen of your profession may consider how to do it. As I told you, gentlemen, the independent spirit with which the members of my department function is largely due to the security they have and they cannot be bullied to do something wrong by the higher-ups, however high they may be. They may be dealing with high Government officials, may be even a Minister.

I do not know whether it will be possible in the case of the Chartered Accountants to have some system by which they could be treated as a service. Of course, they want independence, but all the same there may be some kind of service, of some kind of a register and it should be possible to devise a scheme of remuneration on a secure basis. Quite a lot of work

has to be done. You may have a Board which will be the ultimate authority. Normally, all this might appear very strange. It might appear as if I was striking a blow at the very independence of the profession. It is not so, because I can tell you that in our own country up to 1919 the Auditor General of India did not enjoy a statutory position. That is, his office did not find any mention in the Constitution of India. Till then he was appointed by the Governors General. Perhaps the approval of the Secretary of State was taken, I am not sure. It was only from 1919 onwards that his office found mention in the Government of India Act saying that there shall be an Auditor General. Thereafter he was appointed by the Secretary of State and he made his report to the Secretary of State. He could not be removed from office and then all the safeguards were introduced one by one as in the case of the British Auditor General whose position is that he is not a servant of the Government but has a special relation to Parliament. The position of the Comptroller and Auditor General in India is the same. At one time all the superior posts, promotions and other matters were controlled by the Government of India. The result was that most of the officers regarded themselves as Government servants and they were probably nervous at times to criticise any proposal from the Government. They looked upon the whole thing with some tremor. All that has gone now and the entire control vests in the Comptroller and Auditor General, who is a high statutory authority. At one time even some officers thought that all this was a retrograde measure and that their independence would be lost, but it is only now they realize that they have got true independence because they are responsible to an authority which is independent of the Government. What you should devise in your case is that you should be responsible to an authority and that you are appointed by, and responsible for your work to that authority. Of course, you must do your work without fear and if there is anything wrong, there must be that appellate authority – it may be the Board- but it must be a statutory authority. That authority will determine the remuneration. I hope I have not offended anybody here by throwing out this suggestion but my entire object is to secure the independence and integrity for the profession. That is one way of doing that. This is very near to my heart. Otherwise, may an honest man may go under in the course of his career...

I am not suggesting that the Comptroller and Auditor General – myself or my successor – should take over the extremely difficult task of handling a large number of private accountants and auditors. You can organise yourself and vest the control in a small body of Registered Accountants or a group whatever it is

called by statute. And it may be necessary to have a highly paid, what shall we call him, Controller – General plus a separate Auditor General Auditor-in-Chief for commercial undertakings – something of that sort. I have given you the suggestion for your consideration.

There is one important thing. Accounting is becoming more and more intricate with the advance of modern techniques in industry. After all, accounts follow facts. They must, therefore, go with the transactions, and an accountant must have a very good inkling – a very comprehensive idea, more than an inkling- of what he is accounting and what he is looking into. It is no use his having knowledge of one side of the things; it is no use his knowing only Stores Accounts or his knowing only how to maintain cash books or how to keep Receipt and Issue Registers and so on. He must know something of everything if it is a big thing...

We in India are resourceful enough. But the main thing that is required is a high standard of intelligence, originality, initiative and all those qualities necessary for devising a form of accounts which will be suitable for each particular kind of business...

Therefore, gentlemen, accounting is not a static profession. It is very necessary that you should have a Research Section or a Study Group and it is necessary also to devise a system of sending our bright young men abroad to countries like England, Germany, France, etc. to study the various types of manufactures and the kinds of accounts they maintain. I think our young men will learn these things very quickly, because we Indians have a very great flair for accounting and I think we can learn all those things very easily. But it is necessary to keep an open mind and be ready always to build up the system of accounts. I venture to state here that there are certain aspects of commercial accounting which need a very close study.

Well, the role of an accountant in modern India, which is fast industrialising, is very great indeed. As I said a little while ago, gentlemen, an accountant has to follow the various technical processes in terms of figures. He has to know a great deal in each sphere of activity. He has to be Jack of all trades. He has got to know something of everything. So this makes him very intelligent. In my humble opinion that is what I have found. So far as the members of my own department are concerned, I have found them invariably doing a good job in every field to which they have been sent. And I have been told by my counterparts in other countries that it is the same case with them, too. You can be captains of industries; you can be big economists, and there is no field, which is not open to an intelligent accountant and auditor. Therefore, I think there is a very great future for this profession. ■