

Government of Madras

HOME DEPARTMENT (EDUCATION).

G.O. No. 1380, 29th October 1918

Grant-in-Aid Code.

Approving the recommendation of the Director of Public Instruction that the financial statements of aided institutions submitted to the department should bear the countersignature of a competent auditor not in any way connected with the institution and directing the publication of a notification making the necessary alterations in the—

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ORIGINAL

Government of Madras

HOME DEPARTMENT (EDUCATION).

G.O. No. 1380, 29th October 1918

Grant-in-Aid Code.

Approving the recommendation of the Director of Public Instruction that the financial statements of aided institutions submitted to the department should bear the countersignature of a competent auditor not in any way connected with the institution and directing the publication of a notification making the necessary alterations in the—

READ—the following papers:—

I

G.O. No. 651, Home (Education), dated 17th May 1917.

ABSTRACT.—Approving the proposal of the Director of Public Instruction to make an addition to rule 37 of chapter IV of the Grant-in-Aid Code regarding the auditing of accounts of secondary schools by a competent auditor.

II

Letter—from the Hon'ble Mr. J. H. STONE, M.A., F.R.H.S., C.I.E., Director of Public Instruction.

To—the Secretary to Government, Home (Education) Department.

Dated—Madras, the 3rd July 1918.

No.—R.C. 8170/1917.

With reference to G.O. No. 651, Home (Education), dated 17th May 1917, approving my proposal to make an addition to rule 37, Chapter IV of the Grant-in-Aid Code, regarding the auditing of accounts of secondary schools, I called upon Inspectors and Inspectresses to submit to me lists of aided secondary schools whose financial statements should, in their opinion, be required to bear the countersignature of a competent auditor not in any way connected with the institutions. The impression which I got from a perusal of their reports was that audit should be insisted on in all cases or in none. For if schools were selected for audit there would come to be a stigma attached to such audit—a stigma which, whether deserved or not, would arouse bad feeling. If, however, audit were universal, we might easily induce the idea that it was a welcome innovation to be gladly accepted by all. But if all secondary school accounts were to be audited, I feared that there would be a dearth of competent auditors and that the expense, moreover, would not be negligible. I therefore consulted the Registrar of Joint Stock Companies and he has informed me that there are at present 59 certificated auditors in the Presidency, who, he considers, would be able to cope with the work of auditing the financial statements of secondary schools. Incidentally he also points out that looking at the matter from the point of view of the development of auditing as a profession, the placing of more work within the reach of certificated auditors is to be welcomed. As regards the cost of auditing, the Registrar states that the fee paid for the audit, under the Indian Companies Act, 1913, of the balance sheets of certain educational institutions has varied from Rs. 20 to Rs. 100, that the work involved in the audit and certification of the financial statements of secondary schools would probably be less and that the audit fees should in that event be proportionately smaller. In these circumstances I consider that audit may be made compulsory in regard to the financial statements of colleges, aided secondary and training schools. Middle schools may be excluded from the operation of this rule as the amounts involved in their case are smaller and as they are generally in more out-of-the-way places. Training sections attached

to aided schools may be included in these audits and the inspectors concerned will be asked to see that they are so included. As regards audit fees, they would be part of the admissible expenditure on which the teaching grant is calculated.

2. I have accordingly the honour to submit, for the approval of Government and publication in the *Fort St. George Gazette*, the following alterations in the Grant-in-Aid Code:—

NOTIFICATION

(i) The following shall be substituted for rule 37, Chapter IV of the Grant-in-Aid Code:—

“The management of every aided secondary school shall submit to the Director through the Inspector, not later than 1st May of each year, a financial statement in the prescribed form (Appendix F) which should bear the countersignature of a certificated auditor not in any way connected with the institution. The auditor should certify to the receipts and expenditure being correctly stated and supported by proper vouchers”.

(ii) The following shall be added to the financial statement prescribed in Appendix F, after Certificate No. 1:—

“2 *Certificate*.—I hereby certify that I have audited the accounts of the
College
School for the year and that the receipts and expenditure shown in the above statement are correctly stated and supported by proper vouchers.

Station

Date

Certificated auditor.”

(iii) The following shall be substituted for rule 43 Chapter V of the Grant-in-Aid Code:—

“The management shall submit to the Director not later than 1st May, a financial statement in the prescribed form (Appendix F) which should bear the countersignature of a certificated auditor not in any way connected with the institution. The auditor should certify to the receipts and expenditure being correctly stated and supported by proper vouchers”.

(iv) The following shall be added to the first sentence of rule 45, Chapter VI of the Grant-in-Aid Code:—

“A financial statement in the prescribed form (Appendix F) bearing the countersignature of a certificated auditor not in any way connected with the institution being submitted to the Director through the inspector not later than 1st May in the case of training schools.”

These changes may have effect from the beginning of the next financial year, as the financial statements for the current year have in many cases been already submitted and dealt with.

Order—No. 1380, Home (Education), dated 29th October 1918.

The Government approve the recommendation of the Director of Public Instruction that the financial statements of aided colleges, high schools and training schools submitted to the department should bear the countersignature of a competent auditor not in any way connected with the institution. The decision of the Director or the Inspector of schools as the case may be as to whether any person is a competent auditor will be final.

2. The following notification will be published in the *Fort St. George Gazette*:—

NOTIFICATION

(i) The following shall be substituted for rule 37, Chapter IV of the Grant-in-Aid Code:—

“The management of every aided secondary school shall submit to the Director through the Inspector, not later than 1st May of each year, a financial statement in the prescribed form (Appendix F) which should, in the case of high schools, bear the countersignature of a competent auditor not in any way connected with the institution. The auditor should certify to the receipts and expenditure being correctly stated and supported by proper vouchers. The decision of the Inspector of schools as to whether any person is a competent auditor will be final.”

(ii) The following shall be added to the financial statement prescribed in Appendix F after certificate No. 1:—

“2. *Certificate*.—I hereby certify that I have audited the accounts of the
College
School for the year and that the receipts and expenditure shown in the above statement are correctly stated and supported by proper vouchers.”

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(iii) The following shall be substituted for rule 43, Chapter V of the Grant-in-Aid Code:—

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(iv) (a). The following shall be added to the first sentence of rule 45, Chapter VI of the Grant-in Aid Code:—

“a financial statement in the prescribed form (Appendix F) bearing the countersignature of a competent auditor not in any way connected with the institution being submitted to the Director through the Inspector not later than 1st May in the case of training schools.”

(b) Insert the following between the first and second sentence of the rule:—

“The decision of the Inspector of schools as to whether any person is a competent auditor will be final.”

(True extract)

R. RAMACHANDRA RAO,
Secretary to Government.

To the Director of Public Instruction.

“Superintendent, Government Press, for publication of the notification in the Gazette.
Judicial Department.

NOTES CONNECTED WITH G.O. No. 1380, HOME (EDUCATION),
DATED 29TH OCTOBER 1918

[SUBJECT.—*Audit of financial statements of aided institutions.*]

HOME (EDUCATION) DEPARTMENT.

From the Director of Public Instruction, R.C. No. 8170, dated 3rd July 1918.

Under rule 37 of the Grant-in-Aid Code as amended by G.O. No. 651, Home (Education), dated the 17th May 1917, the Director can, at his discretion, require that the financial statement of an aided secondary school should be countersigned by a competent auditor not in any way connected with the institution. The Director states that, if schools were selected for audit, there would come to be a stigma attached to such audit—a stigma which, whether deserved or not, would arouse bad feeling. He considers that the audit should be insisted on in all cases or in none. He therefore proposes that audit should be made compulsory in regard to the financial statements of aided colleges, high schools and training schools. The number of such institutions on the 31st March 1917 was as follows:—

Colleges	...	...	...	...	...	...	...	...	22
High schools	...	...	...	...	...	...	...	...	149
Training schools	...	...	...	...	...	...	...	...	30
Total	...	...	...	...	...	...	...	...	201

The number of certificated auditors is at present reported to be 59. This will give one auditor for every four institutions.

2. It is for consideration whether the Director's proposal may be approved. It will be seen from paragraph 9 of Director of Public Instruction's letter on page 2 of G.O. No. 876, Home (Education), dated the 2nd July 1917, and from paragraph 1 (4) of the Government Order that the rule as regards compulsory audit contained in article 33 (d) of the Code of Regulations for European schools is *not* now enforced in the case of all European schools.

3. A draft order is submitted for approval. As middle schools are to be excluded from the operation of the new rule, the addition to the draft notification suggested is for approval.

4. The draft may be sent to Judicial for acceptance. Financial may also see the papers as hereafter audit fees will be treated as part of the regular expenditure of aided institutions in assessing grants-in-aid.

N.K.—15-7-18.

The proposal may be accepted.

C. RAMANUJA ACHARIYAR—16-7-18.

If the proposed amendments are accepted, the audit of high schools, etc., becomes compulsory.

2. The Director of Public Instruction has under the present rule discretion to require an audit certificate from middle schools. If the rule is amended, he loses the discretion.

3. On the last occasion His Excellency noted that the "words are permissive."

R. RAMACHANDRA RAO—17-7-18.

HOME (JUDICIAL) DEPARTMENT.

The draft may be accepted in this department and the case passed on to financial.

T.S.M.—19-7-18.

M.V.V.—19-7-18.

C. RAMANUJA ACHARIYAR—22-7-18.

FINANCIAL DEPARTMENT.

In the draft order it is proposed to accept the Director of Public Instruction's recommendation that the financial statements of aided colleges, high schools and training schools should be audited by competent auditors. The audit fees will be included in the contingencies of the institutions and will be taken into account in calculating the teaching grants admissible to them under rules 32 and 33 of the Grant-in-Aid Code. The grant from Government will be roughly one-half of the expenditure on account of the audit.

2. The total number of aided colleges, high schools and training schools on 31st March 1917 was 201; and the fee paid to auditors for the audit of the balance sheets of certain Educational institutions has varied from Rs. 20 to Rs. 100. Taking the audit fee at an average rate of Rs. 50 for each institution, the total cost of audit for the 201 institutions will be about Rs. 10,000 per annum and the grant from Government may be estimated roughly at Rs. 5,000 per annum.

3. For orders whether the draft may be accepted.

V.U.K.N.—1-8-18.

V.G.K.—1-8-18.

A It is not quite clear on what principle it is proposed to include the audit fees in the teaching grant. Just at present an audit certificate can be required under the rules and if under the existing system the cost of the audit is borne by the institutions concerned, I do not see why under the revised system Government should be called upon to share in the audit. Will Home kindly reconsider this aspect of the question before I take Chief Secretary's orders.

L. E. KERSHAW—2-8-18.

HOME (EDUCATION) DEPARTMENT.

Please see the Assistant Secretary's remarks at A above. The principle on which it is proposed to include the audit fees as part of admissible expenditure for purposes of calculating grant, is that the audit is insisted on in the interests of the Government only. Please see the Director of Public Instruction's letter C. No. 2730, dated the 31st March 1917, at page 1 of G.O. No. 651, Home (Education), dated the 17th May 1917.

2. The new rule as regards the audit of school accounts introduced by G.O. No. 651, Home (Education), dated the 17th May 1917, does not appear to have been worked as yet—vide paragraph 1 of the Director's letter in the current file. The old rule which in fact is the one still followed *made no provision* for the auditing of accounts. It merely required the management to submit within a specified date to the Director through the Inspector a financial statement in a prescribed form. It may in this connexion be pointed out that audit fee is admitted as a legitimate cost for purposes of calculating grant in the case of European schools.

3. The file may now be returned to Financial.

T.K.K.—10-8-18.

N.K.—12-8-18.

The principle of admitting auditors' fees in the expenditure of the school for purposes of grant has been already accepted in the case of European schools.

2. This charge is akin to the Architect's fees in the case of building schemes for schools on which also half grants are given under chapter VIII of the Grant-in-Aid Code [rule 52 (ii)].

The auditors' fee should legitimately form part of the ordinary expenditure of a school.

C. RAMANUJA ACHARIYAR—14-8-18.

R. RAMACHANDRA RAO—15-8-18.

FINANCIAL DEPARTMENT.

Please see the Assistant Secretary's (Mr. Kershaw) note on page 2 ante. Home (Education) consider that auditors' fees should be included in the admissible expenditure of schools for purposes of calculating the teaching grant for the following reasons:—

- (1) the audit is insisted on in the interests of Government; and
- (2) the principle has been accepted in the case of European schools.

2. With reference to A on page 2 ante Home (Education) state that the old rule made no provision for the auditing of accounts.

3. For orders whether in the circumstances the draft may be accepted. The extra cost to Government will be about Rs. 5,000 per annum.

V.U.K.N.—19-8-18.

V.G.K.—19-8-18.

May accept.

J. M. HOOPER—20-8-18.

L. DAVIDSON—21-8-18.

HOME (EDUCATION) DEPARTMENT.

The draft below which has been accepted by Financial is for approval. The following points are, however, submitted for consideration. By the term "a certificated auditor," it is apparently meant to refer to an auditor who has been granted a certificate under the Indian Companies Act for auditing accounts of institutions coming under that Act. If so, the field of choice for auditors becomes narrowed. The present policy in regard to grant of such certificates is to restrict them only to those who have taken auditing as a full-time profession and who have been able to secure sufficient patronage from the public. The number of certificate holders, which was 59 a few months ago, is now 53 and it is likely that the number will be further reduced with the opening of the Institute of Commerce. With such a reduced number the difficulty of securing audits of high schools by these men must become great, more so in view of the rule in the Grant-in-Aid Code requiring the submission of financial statements for year ending with the school year (i.e., about the end of March) by the 1st of May. There is then hardly a month for the audit of the accounts and the few certificated auditors cannot be secured by all the institutions (which number 201) within the time prescribed. An auditor secures a certificate for an elaborate knowledge of accounts of banks and business concerns and of their audits. Such knowledge is hardly necessary for the audit of simple accounts of educational institutions. It is understood that the Secretary had a discussion on this matter with the Registrar of Joint Stock Companies and the latter was also of the opinion that for the audit of the accounts of schools certificated auditors under the Indian Companies Act are not required. While these auditors may be declared competent to audit the accounts of schools, the audit need not necessarily under existing conditions be restricted to them.

In regard to European schools, the rule declares that the accounts should be audited by a competent person not connected with the school. Apparently the competency of the auditor is accepted by the inspecting officer or by the Director. In the case of the educational institutions

now under consideration also a somewhat similar procedure may be accepted and it may be left to inspectors of circles or the Director to declare persons other than certificate holders to be competent to audit the accounts of schools. The rule, which renders the auditing of accounts compulsory, can only then be satisfactorily worked. Before further consideration, the Registrar of Joint Stock Companies and the Director

Approved. of Public Instruction may be consulted again. A draft u.o. note to the Registrar is submitted.
R.R.—5-9-18.

On his reply the Director of Public Instruction may be consulted.

C. RAMANUJA ACHARIYAR—4-9-18.

R. RAMACHANDRA RAO—5-9-18.

The Director of Public Instruction suggests that the accounts of aided colleges, high schools and training schools should be audited by certificated auditors. By the term 'a certificated auditor' he apparently refers to an auditor who has been granted a certificate under the Indian Companies Act for auditing accounts of institutions coming under that Act. If so, the field of choice for auditors becomes narrowed. The present policy in regard to the grant of certificates is to restrict them only to those who have taken auditing as full time profession and who have been able to secure sufficient patronage from the public. The number of certificate holders, which was 59 a few months ago, is now 53 and it is likely that the number will be further reduced. With such a reduced number the difficulty of securing audits of the educational institutions by these men must become great, more so in view of the rule in the Grant-in-Aid Code requiring the submission of financial statements for years ending with the school year (i.e., about the end of March) by the 1st of May. There is then hardly a month for the audit of the accounts and the few certificated auditors cannot be secured by all the institutions (which number 201) to audit the accounts within the time prescribed. An auditor secures a certificate for an elaborate knowledge of accounts of banks and business concerns and of their audits. Such knowledge is hardly necessary for the audit of simple accounts of educational institutions. While these auditors may be declared competent to audit the accounts of schools, it does not seem necessary that the audit should be restricted to them. In regard to European schools the rule declares that the accounts should be audited by a competent person not connected with the school. Apparently the competency of the auditor is accepted by the inspecting officer or by the Director. In the case of other educational institutions under consideration a somewhat similar procedure may perhaps be adopted and it may be left to inspectors of schools or the Director to declare persons other than certificate holders to be competent to audit the accounts of schools. The rule which renders the auditing of accounts compulsory can then be satisfactorily worked.

The Registrar of Joint Stock Companies may be requested u.o. to offer his remarks on the above.

C.R.—4-9-18.

The Registrar was kind enough to tell me that he would consider the above question and let me have the benefit of his views.

R.R.—5-9-18.

REGISTRAR OF JOINT STOCK COMPANIES.

The accounts in question, viz., of aided colleges, high schools and training schools, cannot be of such a nature as to demand a high standard of skill in auditing and, apart from this fact, it appears to be necessary to open out a wide field of selection as apparently the colleges and schools if aided institutions, will have to pay the audit fees and they will not in many cases be able to afford the fees demanded by a high class auditor. I would therefore first suggest that the term "certificated

auditor", which the Director apparently desires to incorporate in the rules, should be dropped as it can only lead to confusion with auditors to whom certificates are granted by Government under the Indian Companies Act. Some such expression might be used as "an auditor licensed by the Local Government" [or "by the Director of Public Instruction" according as the decision may be].

2. It does not appear to be necessary that Government should license these auditors and perhaps they will be content with leaving the matter in the hands of the Director of Public Instruction.

3. The field of selection may be restricted to—

(1) All persons eligible to audit the accounts of Joint Stock Companies or Provident Insurance Societies in English.

(2) The holders of the Diploma in Commerce of the Local Government. These have to pass in Book-keeping—Advanced, Theory and Practice of Commerce—Advanced, Commercial Geography—Advanced and Banking—Intermediate.

(3) Persons who have passed the Advanced tests in Book-keeping and in Theory and Practice of Commerce and the Intermediate test in Banking or the Examination of the London Chamber of Commerce in Book-keeping and Accountancy.

(4) Retired Government Accountants with official experience in audit work.

This would, I think, give a sufficiently wide field for selection. If in any special cases which do not fall under the classes mentioned the Director of Public Instruction considered a licence might be granted he could obtain the sanction of Government.

4. It would also appear to be advisable to lay down that before licensing an auditor, the Director of Public Instruction should refer to the Registrar of Joint Stock Companies except in the case of class (1) where he should demand the production of existing certificates. The Registrar may have information regarding a particular applicant which would be useful.

5. I would at starting restrict the licences to a period of two years so that the Director at the end of that time would be able to review any grants he thought fit. He would, in the meantime, have obtained some knowledge of the work performed by the licensees.

C. M. SCHMIDT—15-9-18.

HOME (EDUCATION) DEPARTMENT.

Submitted that the remarks of the Director of Public Instruction may be invited u.o. on the suggestions of the Registrar of Joint Stock Companies.

S.A.—19-9-18.

C. RAMANUJA ACHARIYAR—21-9-18.

The words "certificated auditor" have obtained a special signification now. In consideration of Mr. Schmidt's note above, I am not sure if Mr. Stone understood him rightly. A "certificated auditor" requires considerable qualification; and we are steadily reducing the number. All the "certificated auditors" will not be sufficient to do the High School accounts in the limited time available. All that is wanted seems to be "a competent auditor not connected with the management." Mr. Schmidt thinks that "an auditor licensed by the Director" will quite do; it being presumed that all "certificated auditors" may be taken as so licensed.

R. RAMACHANDRA RAO—23-9-18.

OFFICE OF THE DIRECTOR OF PUBLIC INSTRUCTION.

In the proposed rules I would read "competent" for "certificated". I do not favour the idea of persons being licensed as auditors by the Director for the following reasons:—

(1) there will be endless applications from all sorts of persons for licences;

5/11

Grant-in-Aid Code:-

"The management of every aided
"secondary school shall submit to the
"Director through the Inspector, not later
"than 1st May of each year, a financial
"statement in the prescribed form (Appendix
"F) which should, in the case of high
"schools bear the countersignature of a
"competent auditor not in any way connected
"with the institution. The Auditor should
"certify to the receipts and expenditure
"being correctly stated and supported by
"proper vouchers. The decision of the
"Inspector of schools as to whether any
"person is a competent auditor will be
"final."

(ii) The following shall be added to
the financial Statement prescribed in Appendix
F, after certificate No. I. :-

"2. Certificate. I hereby certify
"that I have audited the accounts of the
"..... College/school for the year
"and that the receipts and expenditure shown
"in the above statement are correctly stated
"and supported by proper vouchers."

Station.
Date..... Auditor."

(iii) The following shall be substituted for
Rule 43- Chapter V of the Grant-in-Aid Code:-

"The management shall submit to the
"Director, not later than 1st May, a financial
"statement in the prescribed form (Appendix F)
"which should bear the countersignature of

"certify to the receipts and expenditure
"being correctly stated and supported by
"proper vouchers. The decision of the
"Director as to whether any person is a
"competent auditor will be final."

(iv) (a). The following shall be
added to the first sentence of Rule 45,
Chapter VI, of the Grant-in-Aid Code:-

"a financial statement in the pre-
"scribed form (Appendix F) bearing the
"countersignature of a competent auditor
"not in any way connected with the
"institution being submitted to the
"Director through the Inspector not later
"than 1st May, in the case of Training
"Schools."

(b) Insert the following between
the first and second sentence of the rule:
"The decision of the Inspector of
"schools as to whether any person is a com-
"petent ^{auditor} ~~person~~ will be final."

*Read to go
with Sec. 24
D. 11-18*

To the Director of Public Instruction.
,, Superintendent, Government
Press for publication
of the Notification in the
Gazette.
,, Judicial Department.
Gazetted on 3-12-18

*Ca
24.10.18
NB
20/11/18
my
27/11/18*

G.O. No. 1380, 29th October 1918
Grant-in-Aid Code.

READ—the following paper:—

G.O. No. 651, Home (Education), dated 17th May 1917.

ABSTRACT

No.—R.O. 8170/1917.

2. I have accordingly the honour to submit, for the approval of Government and publication in the *Fort St. George Gazette*, the following alterations in the Grant-in-Aid Code :—

NOTIFICATION

Code :—

“ The management of every aided secondary school shall submit to the Director through the Inspector, not later than 1st May of each year, a financial statement in the prescribed form (Appendix F) which should bear the countersignature of a certificated auditor not in any way connected with the institution. The auditor should certify to the receipts and expenditure being correctly stated and supported by proper vouchers ”.

1. In the financial statement prescribed in Appendix F.

(ii) The following shall be added to the financial statement prescribed in Appendix F, after Certificate No. 1 :—

College
School

2

No. 1380, HOME (EDUCATION), 29TH OCTOBER 1918

"2 Certificate.—I hereby certify that I have audited the accounts of the college school for the year . . . and that the receipts and expenditure shown in the above statement are correctly stated and supported by proper vouchers.

Station
Date

Certificated auditor."

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(iv) The following shall be added to the first sentence of rule 45, Chapter VI of the Grant-in-Aid Code :—

"A financial statement in the prescribed form (Appendix F) bearing the countersignature of a certificated auditor not in any way connected with the institution being submitted to the Director through the inspector not later than 1st May in the case of training schools."

These changes may have effect from the beginning of the next financial year, as the financial statements for the current year have in many cases been already submitted and dealt with.

Order—No. 1380, Home (Education), dated 29th October 1918.

The Government approve the recommendation of the Director of Public Instruction that the financial statements of aided colleges, high schools and training schools submitted to the department should bear the countersignature of a competent auditor not in any way connected with the institution. The decision of the Director or the Inspector of schools as the case may be as to whether any person is a competent auditor will be final.

2. The following notification will be published in the Fort St. George Gazette :—

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(b) Insert the following between the first and second sentence of the rule :—

"The decision of the Inspector of schools as to whether any person is a competent auditor will be final."

(True extract)

R. RAMACHANDRA RAO,
Secretary to Government.

To the Director of Public Instruction.
" Superintendent, Government Press, for publication of the notification in the Gazette.
" Judicial Department.

NOTES CONNECTED WITH G.O. No. 1380, HOME (EDUCATION),
DATED 29TH OCTOBER 1918

[SUBJECT.—Audit of financial statements of aided institutions.]

HOME (EDUCATION) DEPARTMENT.

From the Director of Public Instruction, dated 3rd July 1918, R.C. No. 8170
Under rule 37 of the Grant-in-Aid Code as amended by G.O. No. 651, Home (Education), dated the 17th May 1917, the Director can, at his discretion, require that the financial statement of an aided secondary school should be countersigned by a competent auditor not in any way connected with the institution. The Director states that, if schools were selected for audit, there would come to be a stigma attached to such audit—a stigma which, whether deserved or not, would arouse bad feeling. He considers that the audit should be insisted on in all cases or in none. He therefore proposes that audit should be made compulsory in regard to the financial statements of aided colleges, high schools and training schools. The number of such institutions on the 31st March 1917 was as follows:—

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Total	...	...	...	...	...	...	...	...	201

The number of certificated auditors is at present reported to be 59. This will give one auditor for every four institutions.

2. It is for consideration whether the Director's proposal may be approved. It will be seen from paragraph 9 of Director of Public Instruction's letter on page 2 of G.O. No. 876, Home (Education), dated the 2nd July 1917, and from paragraph 1 (4) of the Government Order that the rule as regards compulsory audit contained in article 33 (d) of the Code of Regulations for European schools is not now enforced in the case of all European schools.

3. A draft order is submitted for approval. As middle schools are to be excluded from the operation of the new rule, the addition in pencil to the draft notification on page 3 of current file is for approval.

4. The draft may be sent to Judicial for acceptance. Financial may also see the papers as hereafter audit fees will be treated as part of the regular expenditure of aided institutions in assessing grants-in-aid.

N.K.—15-7-18.

The proposal may be accepted.

C. RAMANUJA ACHARIYAR—16-7-18.

If the proposed amendments are accepted, the audit of high schools, etc., becomes compulsory.

2. The Director of Public Instruction has under the present rule discretion to require an audit certificate from middle schools. If the rule is amended, he loses the discretion.

3. On the last occasion His Excellency noted that the "words are permissive."
R. RAMACHANDRA RAO—17-7-18.

HOME (JUDICIAL) DEPARTMENT.

The draft may be accepted in this department and the case passed on to financial.

T.S.M.—19-7-18.

M.V.V.—19-7-18.

C. RAMANUJA ACHARIYAR—22-7-18.

FINANCIAL DEPARTMENT.

In the draft order it is proposed to accept the Director of Public Instruction's recommendation that the financial statements of aided colleges, high schools and training schools should be audited by competent auditors. The audit fees will be included in the contingencies of the institutions and will be taken into account in calculating the teaching grants admissible to them under rules 32 and 33 of the Grant-in-Aid Code. The grant from Government will be roughly one half of the expenditure on account of the audit.

2. The total number of aided colleges, high schools and training schools on 31st March 1917 was 201; and the fee paid to auditors for the audit of the balance sheets of certain Educational institutions has varied from Rs. 20 to Rs. 100. Taking the audit fee at an average rate of Rs. 50 for each institution, the total cost of audit for the 201 institutions will be about Rs. 10,000 per annum and the grant from Government may be estimated roughly at Rs. 5,000 per annum.

3. For orders whether the draft may be accepted.

V.U.K.N.—1-8-18.

V.G.K.—1-8-18.

A It is not quite clear on what principle it is proposed to include the audit fees in the teaching grant. Just at present an audit certificate can be required under the rules and if under the existing system the cost of the audit is borne by the institutions concerned, I do not see why under the revised system Government should be called upon to share in the audit. Will Honourable Member kindly reconsider this aspect of the question before I take Chief Secretary's orders.

L. E. KERSHAW—2-8-18.

HOME (EDUCATION) DEPARTMENT.

Please see the Assistant Secretary's remarks at A above. The principle on which it is proposed to include the audit fees as part of admissible expenditure for purposes of calculating grant, is that the audit is insisted on in the interests of the Government only. Please see the Director of Public Instruction's letter C. No. 2730, dated the 31st March 1917, at page 1 of G.O. No. 651, Home (Education), dated the 17th May 1917.

2. The new rule as regards the audit of school accounts introduced by G.O. No. 651, Home (Education), dated the 17th May 1917, does not appear to have been worked as yet—vide paragraph 1 of the Director's letter in the c.f. The old rule K which in fact is the one still followed made no provision for the auditing of accounts. It merely required the management to submit within a specified date to the Director through the Inspector a financial statement in a prescribed form. It may in this connexion be pointed out that audit fee is admitted as a legitimate cost for purposes of calculating grant in the case of European schools.

3. The file may now be returned to Financial.

T.S.K.—10-8-18.

N.K.—12-8-18.

The principle of admitting auditors' fees in the expenditure of the school for purposes of grant has been already accepted in the case of European schools.

2. This charge is akin to the Architect's fees in the case of building schemes for schools on which also half grants are given under chapter VIII of the Grant-in-Aid Code [rule 52 (ii)].

The auditors' fee should legitimately form part of the ordinary expenditure of a school.

C. RAMANUJA ACHARIYAR—14-8-18.

R. RAMACHANDRA RAO—15-8-18.

FINANCIAL DEPARTMENT.

Please see the Assistant Secretary's (Mr. Kershaw) note on page 2 ante. Home (Education) consider that auditors' fees should be included in the admissible expenditure of schools for purposes of calculating the teaching grant for the following reasons:—

- (1) the audit is insisted on in the interests of Government; and
- (2) the principle has been accepted in the case of European schools.

2. With reference to A on page 2 ante Home (Education) state that the old rule made no provision for the auditing of accounts.

3. For orders whether in the circumstances the draft may be accepted. The extra cost to Government will be about Rs. 5,000 per annum.

V.U.K.N.—19-8-18.

V.G.K.—19-8-18.

May accept.

J. M. HOOPER—20-8-18.

L. DAVIDSON—21-8-18.

HOME (EDUCATION) DEPARTMENT.

The draft below which has been accepted by Financial is for approval. The following points are, however, submitted for consideration. By the term "a certificated auditor," it is apparently meant to refer to an auditor who has been granted a certificate under the Indian Companies Act for auditing accounts of institutions coming under that Act. If so, the field of choice for auditors becomes narrowed. The present policy in regard to grant of such certificates is to restrict them only to those who have taken auditing as a full-time profession and who have been able to secure sufficient patronage from the public. The number of certificate holders, which was 59 a few months ago, is now 53 and it is likely that the number will be further reduced with the opening of the Institute of Commerce. With such a reduced number the difficulty of securing audits of high schools by these men must become great, more so in view of the rule in the Grant-in-Aid Code requiring the submission of financial statements for years ending with the school year (i.e., about the end of March) by the 1st of May. There is then hardly a month for the audit of the accounts and the few certificated auditors cannot be secured by all the institutions (which number 201) within the time prescribed. An auditor secures a certificate for an elaborate knowledge of accounts of banks and business concerns and of their audits. Such knowledge is hardly necessary for the audit of simple accounts of educational institutions. It is understood that the Secretary had a discussion on this matter with the Registrar of Joint Stock Companies and the latter was also of the opinion that for the audit of the accounts of schools certificated auditors under the Indian Companies Act are not required. While these auditors may be declared competent to audit the accounts of schools, the audit need not necessarily under existing conditions be restricted to them.

In regard to European schools, the rule declares that the accounts should be audited by a competent person not connected with the school.

Apparently the competency of the auditor is accepted by the inspecting officer or by the Director. In the case of the educational institutions

now under consideration also a somewhat similar procedure may be accepted and it may be left to inspectors of circles or the Director to declare persons other than certificate holders to be competent to audit the accounts of schools. The rule, which renders the auditing of accounts compulsory, can only then be satisfactorily worked. Before further consideration, the Registrar of Joint Stock Companies and the Director

Approved.

R.R.—5-9-18.

of Public Instruction may be consulted again. A draft u.o. note to the Registrar is submitted.

On his reply the Director of Public Instruction may be consulted.

C. RAMANUJA ACHARIYAR—4-9-18.

R. RAMACHANDRA RAO—5-9-18.

HOME (EDUCATION) DEPARTMENT.

The Director of Public Instruction suggests that the accounts of aided colleges, high schools and training schools should be audited by certificated auditors. By the term 'a certificated auditor' he apparently refers to an auditor who has been granted a certificate under the Indian Companies Act for auditing accounts of institutions coming under that Act. If so, the field of choice for auditors becomes narrowed. The present policy in regard to the grant of certificates is to restrict them only to those who have taken auditing as full time profession and who have been able to secure sufficient patronage from the public. The number of certificate holders, which was 59 a few months ago, is now 53 and it is likely that the number will be further reduced. With such a reduced number the difficulty of securing audits of the educational institutions by these men must become great, more so in view of the rule in the Grant-in-Aid Code requiring the submission of financial statements for years ending with the school year (i.e., about the end of March) by the 1st of May. There is then hardly a month for the audit of the accounts and the few certificated auditors cannot be secured by all the institutions (which number 201) to audit the accounts within the time prescribed. An auditor secures a certificate for an elaborate knowledge of accounts of banks and business concerns and of their audits. Such knowledge is hardly necessary for the audit of simple accounts of educational institutions. While these auditors may be declared competent to audit the accounts of schools, it does not seem necessary that the audit should be restricted to them. In regard to European schools the rule declares that the accounts should be audited by a competent person not connected with the school. Apparently the competency of the auditor is accepted by the inspecting officer or by the Director. In the case of other educational institutions under consideration a somewhat similar procedure may perhaps be adopted and it may be left to Inspectors of Schools or the Director to declare persons other than certificate holders to be competent to audit the accounts of schools. The rule which renders the auditing of accounts compulsory can then be satisfactorily worked.

The Registrar of Joint Stock Companies may be requested u.o. to offer his remarks on the above.

C. RAMANUJA ACHARIYAR—4-9-18.

The Registrar was kind enough to tell me that he would consider the above question and let me have the benefit of his views.

R. RAMACHANDRA RAO—5-9-18.

REGISTRAR OF JOINT STOCK COMPANIES.

The accounts in question, viz., of aided colleges, high schools and training schools, cannot be of such a nature as to demand a high standard of skill in auditing and, apart from this fact, it appears to be necessary to open out a wide field of

selection as apparently the colleges and schools if aided institutions, will have to pay the audit fees and they will not in many cases be able to afford the fees demanded by a high class auditor. I would therefore first suggest that the term "certificated auditor", which the Director apparently desires to incorporate in the rules, should be dropped as it can only lead to confusion with auditors to whom certificates are granted by Government under the Indian Companies Act. Some such expression might be used as "an auditor licensed by the Local Government" [or "by the Director of Public Instruction" according as the decision may be].

2. It does not appear to be necessary that Government should license these auditors and perhaps they will be content with leaving the matter in the hands of the Director of Public Instruction.

3. The field of selection may be restricted to—

(1) All persons eligible to audit the accounts of Joint Stock Companies or Provident Insurance Societies in English.

(2) The holders of the Diploma in Commerce of the Local Government. These have to pass in Book-keeping—Advanced, Theory and Practice of Commerce—Advanced, Commercial Geography—Advanced and Banking—Intermediate.

(3) Persons who have passed the Advanced tests in Book-keeping and in Theory and Practice of Commerce and the Intermediate test in Banking or the Examination of the London Chamber of Commerce in Book-keeping and Accountancy.

(4) Retired Government Accountants with official experience in audit work.

This would, I think, give a sufficiently wide field for selection. If in any special cases which do not fall under the classes mentioned the Director of Public Instruction considered a licence might be granted he could obtain the sanction of Government.

4. It would also appear to be advisable to lay down that before licensing an auditor, the Director of Public Instruction should refer to the Registrar of Joint Stock Companies except in the case of class (1) where he should demand the production of existing certificates. The Registrar may have information regarding a particular applicant which would be useful.

5. I would at starting restrict the licences to a period of two years so that the Director at the end of that time would be able to review any grants he thought fit. He would, in the meantime, have obtained some knowledge of the work performed by the licensees.

C. M. SCHMIDT—15-9-18.

HOME (EDUCATION) DEPARTMENT.

Submitted that the remarks of the Director of Public Instruction may be invited u.o. on the suggestions of the Registrar of Joint Stock Companies on pages 3 and 4 ~~enter~~ *above*

S.A.—19-9-18.

C. RAMANUJA ACHARIYAR—21-9-18.

The words "certificated auditor" have obtained a special signification now. In consideration of Mr. Schmidt's note above, I am not sure if Mr. Stone understood him rightly. A "certificated auditor" requires considerable qualification; and we are steadily reducing the number. All the "certificated auditors" will not be sufficient to do the High School-accounts in the limited time available. All that is wanted seems to be "a competent auditor not connected with the management". Mr. Schmidt thinks that "an auditor licensed by the Director" will quite do; it being presumed that all "certificated auditors" may be taken as so licensed.

R. RAMACHANDRA RAO—23-9-18.

In the proposed rules I would read "competent" for "certificated". I do not ~~form~~ the idea of persons being licensed as auditors by the Director for the following reasons:—

(1) there will be endless applications from all sorts of persons for licences;

favour

2

6 NOTES TO G.O. No. 1380, HOME (EDUCATION), 29TH OCTOBER 1918

(2) there will be created a class of licensed auditors with no particular qualifications who will trade on the licences granted by the Director ;

(3) the Institute of Commerce will shortly turn out a good class of auditors.

• I would therefore suggest that the Director or the Inspector be permitted to judge of the competency of a person appointed to audit school and college accounts, without any mention being made of licensing.

H. S. DUNCAN—8-10-18.

HOME (EDUCATION) DEPARTMENT.

With reference to the Director of Public Instruction's note above, the word "competent" has been substituted for "certificated" in the draft order and notification. The file may be submitted to His Excellency for approval of draft.

N.K.—18-10-18.

C. RAMANUJA ACHARIYAR—19-10-18.

With reference to the Director of Public Instruction's concluding observations, you will have to add "The decision of the Inspector of Schools as to whether any person is a competent auditor will be final."

Add and type the rules as proposed.

R. RAMACHANDRA RAO—19-10-18.

Draft revised and submitted. In the case of colleges, the financial statement is submitted direct to the Director of Public Instruction and in such cases the Director will have to decide whether the person selected is a competent auditor.

N.K.—23-10-18.

C.R.—24-10-18.

R.R.—25-10-18.

P[ENTLAND]—26-10-18.

Issue.

R.R.—28-10-18.

[G.O. No. 1380, Home (Education), dated 29th October 1918.]

Mr. M. Rame

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