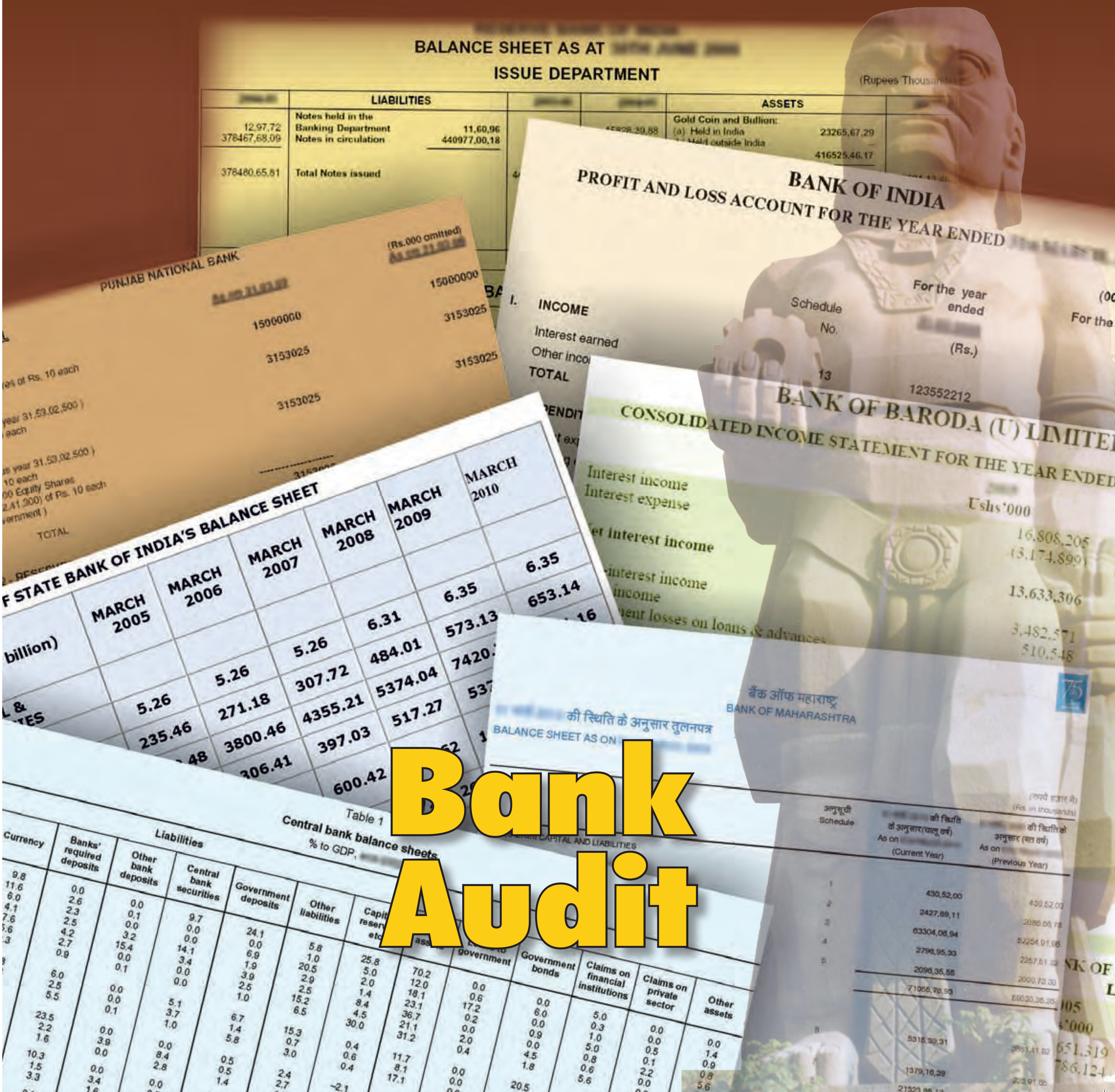
VOLUME 59 | No. 8 | FEBRUARY 2011 | ₹ 100

SET UP BY AN ACT OF PARLIAMENT

THE CHARTERED ACCOUNTANT JOURNAL

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA



Bank Audit

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Profession's Crusade Against Corruption

Number of corruption cases has grown pathologically like *cells of cancer* challenging us and our society. Scams like IPL susceptible deals, 2G Spectrum saga, CWG fiasco, irregularities in flat-allotment in Adarsh Society, LIC Housing Finance scam, Karnataka Mining Scam, etc. are rising, which minimise the profits of our times such as globalisation. World Bank reports that FDI goes down by about 25 to 35 per cent in corrupt countries. As of now, nearly 3,000 cases under the Prevention of Corruption Act, 1988 have been pending from two to ten years. Existing *Benami Transaction (Prohibition)* Act, 1988 is still not effective in the absence of a prescribed procedure. Globalisation of technology and financial systems of nations has removed the barrier in the movement of capital from one country to another. Money launderers have been accumulating enormous profits through fraudulent practices like drug trafficking, arms dealing, etc., posing threat to national security.

While it is imperative to accept and address corruptions of our times, it is also essential to understand that values and morals being integral to our character cannot be practised in isolation. To create a transcending effect crossing our social and professional premises, professionals must display values and morals globally, and not locally inside certain space or sphere of their lives.

Corruption derives its origins from a Latin word *Corruptus* meaning to spoil, break or destroy, which may be defined as dishonest or illegal behaviour by officials or people in positions of power, especially when they accept money in exchange for doing things for someone. It indicates lack of integrity or honesty and use of a position of trust for dishonest gain. It is said, power corrupts and absolute power corrupts absolutely. Though our Constitution ensures that no one has an absolute power in India, money ironically has replaced the concept of power in the absence of our sense of belongingness to ethics.

Globally, various initiatives have been taken to combat this evil. OECD's *Financial Action Task Force (FATF)* has issued various recommendations suggesting legal framework, empowering authority, regulation of financial systems, etc., to deal with the corruption. *Basel Committee on Banking Supervision for International Settlement (BIS),* in 2001, had issued Customer Due Diligence (CDD) guidelines for banks. In India, *Prevention of Money Laundering Act, 2002 (PMLA)* acts towards prevention of money laundering and confiscation of the property derived from or involved in money laundering. RBI, vide its circulars like *Know Your Customer (KYC) norms, Anti-Money Laundering (AML)* standards, *Combating of Financing of Terrorism (CFT), Obligation of banks under PMLA, 2002,* etc., has been addressing financial corruptions. It needs no reiteration that the auditors are required to apply all applicable Standards on Auditing (SAs) while carrying out an audit while working under the framework of the *Code of Ethics of ICAI*. While *client confidentiality* Clause I of the Part I of the Second Schedule to the Charter-ed Accountants Act, 1949 may pose constraints on external auditors and there is no explicit requirement for them to make a report on corruption and money laundering, they do need to evaluate the adverse impact of money-laundering activity on their audit report and on going concern assumption of an entity. Accountancy profession, in fact, worldwide should debate these aspects and explore the extent of auditors' scope in bridging this expectation gap.

While the state of general welfare is not very bright on the one hand, parking of huge unaccounted money of our citizens in foreign banks has made the situation all the more very grim. With growing financial strength, India has started becoming more vulnerable to financial frauds across borders despite its strict foreign exchange laws. But we can eliminate corruption and create a corruption-free society, if we vow to follow ethics fundamentally. Finance Minister Shri Pranab Mukherjee says; *Ethics and governance are the two brakes which should self-activate before an enterprise succumbs to a vicious cycle of ambition, greed and complacency.* Let us acknowledge that ethics cannot be taught. Ethics has to be inculcated and ingrained in the character of our successors not only through the system of education but with simultaneous example-setting crusades and a sincere realisation by our present guardians that they have a responsibility to hand over and pass on an improved world and a better tomorrow to their successors not for the sake of their happiness but for the sake of a more fundamental need, i.e. that of survival.

We hope that accountancy profession has at international level shall put its best foot forward and review the reporting responsibilities afresh.

Editorial Board
Partner in Nation Building

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REPORT

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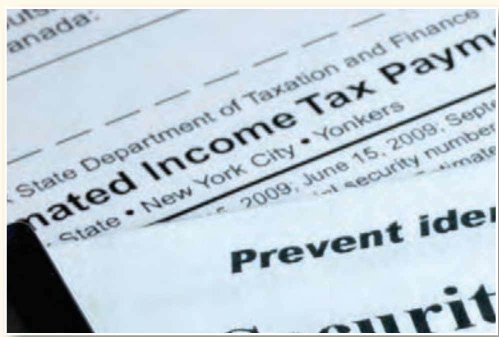

TAXATION

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Dear All,

Let me start my message with the words of a Gandhian Nobel Peace Laureate, Martin Luther King, Jr.: *Let us not wallow in the valley of despair, I say to you today, my friends. And so even though we face the difficulties of today and tomorrow, I still have a dream…I have a dream that one day this nation will rise up and live out the true meaning of its creed: "We hold these truths to be self-evident, that all men are created equal." I have a dream that one day…the sons of former slaves and the sons of former slave owners will be able to sit down together at the table of brotherhood. I have a dream that one day even…a state sweltering with the heat of injustice, sweltering with the heat of oppression, will be transformed into an oasis of freedom and justice.* Equality of mankind—in terms of religion, race or sex—is the most fundamental premise of all change and development. I believe in it and I would recommend all to believe in it. Believe me, the change and development so achieved will be sustainable.

Now, let me take this opportunity to inform that our Institute and profession have touched new heights and reached some of the unfathomed corners of the earth. Number of members of the profession is on an all-time rise. Building blocks of the profession are being consolidated and empowered. We are assisting the Government in streamlining their accounting procedures and responding actively to their requests and suggestions to satisfaction. The Chartered Accountants Act, 1949 is being revised to suit the needs of the hour. Our initiative to grow awareness about accountancy has not only helped the profession domestically by increasing number of students opting for CA education, but internationally too by creating space for Indian academics and professionals from the field of accountancy. New buildings are getting ready to house the ever-increasing actions for associates and fellows of the profession.

We are reaching our international stakeholders with our expertise in accounting and our strong conviction to help the industry in resolving the riddles of accountancy ethically. New Branches and overseas Chapters are being opened. New tie-ups in form of MRAs and MoUs are being formed. There have always been solid reasons why various world accounting associations like IFAC and IASB acknowledge our active role and contributions for the cause of profession. We are constantly creating new platforms and voicing our concerns for the profession at all possible and existing international forums of accountancy. Organising international conferences for members, academics, students and other related professionals is not only our effort to lodge our active presence but also to help and consolidate our profession globally. We are converging our accounting standards to bring ourselves on an international footing without losing our identity, as we fully understand our people and society, and their needs. We are really working hard to advance the cause of profession globally towards creation of a true international accounting fraternity. We are sure we will always have a bigger share in that fraternity. Therefore, we have decided and acted upon to converge our accounting standards with the IFRSs instead of changing ourselves and writing new codes of standards. We are playing a crucial role in this process of convergence in our nation by issuing the converged Standards efficiently.

It is a fact that our Institute and our profession have recorded a huge progress since its inception and, in fact, we have come far far ahead since then. Some of the significant achievements and decisions of the Institute regarding the profession in this Council year (2010-11) have been listed immediately after this message for your information. Meanwhile, let us look at some of the recent significant developments and opportunities created for the profession in particular and for our nation in general:

Shri Murli Deora Our New Corporate Affairs Minister

We are happy to learn that Shri Murli Deora, a politician of long standing and senior Minister in the present Cabinet serving as Petroleum & Natural Gas Minister for the second time, has joined the Ministry of Corporate Affairs as Cabinet Minister succeeding Shri Salman Khurshid. Under his leadership, we wish, the Ministry of Corporate Affairs to usher in a new era of change, development and growth. We take this opportunity to congratulate and welcome Shri Deora for this appointment. We sincerely hope and are sure that his able leadership will create new pages in the development of corporate governance. We assure him to continue with our complete and dedicated cooperation, support and assistance, which we were extending to the outgoing Minster of Corporate Affairs Shri Salman Khurshid.

In fact, this is also time to express our gratitude and appreciations to Shri

Khurshid for all his help, support and encouragement in the initiatives of our Institute in the best interests of the accountancy profession and fraternity. We will always be grateful to him for this.

International Initiatives

International Conference on Accountancy Profession: We are glad to inform that International Conference on *Accountancy Profession: Catalyst to Sustained Economic Growth* was successfully held with more than 1,100 participants at Vigyan Bhawan in New Delhi. Chief Guest Hon'ble Union Minister of Finance Shri Pranab Mukherjee inaugurated the Conference. He also released six of our publications on the occasion. The then Hon'ble Minister of Corporate Affairs, Shri Salman Khurshid and Hon'ble Deputy Chairman, Rajya Sabha, Shri K. Rahman Khan graced the inaugural session as Guests of Honour, and Secretary of Ministry of Corporate Affairs Shri R. Bandyopadhyay was the Special Guest. An MoU with the Higher Colleges of Technology, UAE, was signed during the Conference. Shri Khurshid distributed the ICAI Awards for Excellence in Financial Reporting to the awardees for the year 2010. Eminent national and international experts from the field of accountancy addressed various sessions, which include C&AG of India Shri Vinod Rai, Planning Commission Member Shri Arun Maira, Controller General of India Shri C. R. Sundaramurti, NACAS Chairman CA. Y. H. Malegam, Financial Commissioner (Railways) Shri Samar Jha, IFAC CEO Mr. Ian Ball, IASB Vice-Chairman-Elect Mr. Ian Mackintosh, IAASB, Deputy Chair Ms. Diana Hillier, CPA Australia CEO Mr. Alex Malley, ICAA CEO Mr. Graham Meyer, SAFA immediate-past-President Shri Komal C. Chitracar, ICAP President Shaikh Saqib Masood and ICAWEW Vice-President Mr. Mark Spofforth. A cultural programme was organised at Siri Fort Auditorium for the dignitary delegates. On the last day, a joint Declaration was signed with Association of International Accountants, UK, which bestowed the undersigned with its honorary membership. To keep participants abreast of sessions during the Conference, a *Daily Chronicle* was published on all days covering the events and deliberations of the day. The details of the Conference are published elsewhere in this Journal.

International Conference for CA Students: It is a matter of pride to acknowledge that, for the first time in the history of the Institute, International Conference of CA Students was organised on *Indian Accountancy Profession – Marching Towards Global Centre Stage* at Shri Ram College of Commerce (SRCC), University of Delhi. More than 1,000 Students from India as well as from Nepal attended the Conference, which was inaugurated by the Hon'ble Vice-Chancellor of University of Delhi Prof. Dinesh Singh. The undersigned also addressed the students on this occasion. Central Council colleague CA. Vinod Jain and Chairman, Board of Studies, NIRC Chairman CA. Atul Kumar Gupta and SRCC Principal Dr. P. C. Jain also addressed the Conference. Papers were presented by students on topics covering GST, IFRS, Forensic Accounting, Capital Market, Role of CFO, LLP, etc.

Bilateral Relations with University of Djibouti: We are happy to inform that the undersigned along with ICAI Vice-President CA. G Ramaswamy and ICAI Additional Secretary Shri Rakesh Sehgal recently visited Djibouti, where a statement of Bilateral Cooperation was entered into between ICAI and University of Djibouti, Republic of Djibouti. A department of accountancy to be operational from September 2011 would be set up in the University. A mid-tier certification programme on the lines of Accounting Technician Programme would also be offered. Appropriate framework for establishment of a chartered accountancy programme will also be presented at Djibouti. The successful execution of Djibouti Pilot Project would provide a springboard to us to catapult our efforts in the African countries more vigorously.

Representations and Meetings with Government Bodies

Report to Parliamentary Standing Committee on Finance: We wish to inform that final consolidated report of ICAI on the Direct Taxes Code Bill, 2010 has been submitted recently to the Parliamentary Standing Committee on Finance, which has also desired to have a hearing of ICAI representatives later on the Bill. The undersigned and ICAI Vice-President CA. G. Ramaswamy along with Central Council

colleagues CA. Jayant Gokhale and CA. M. Devaraja Reddy, and Secretary to Direct Taxes Committee of ICAI CA. Mukta K. Verma were nominated to represent the Institute for the same. Responding to request of oral hearing of ICAI representatives on the Bill, CA. Ramaswamy, and CA. Gokhale along with CA. Verma appeared before the Parliamentary Committee and presented the ICAI views on the Bill.

Meeting HRD Minister Shri Kapil Sibal: We wish to inform our readers that the undersigned along with ICAI Vice-President CA. G. Ramaswamy and Director Shri Vijay Kapur met Shri Kapil Sibal, Hon'ble Minister for Human Resource Development, Government of India. Shri Sibal has appreciated and shared our concern on selection of L1 bidders for audit assignment being tendered for *Sarva Shiksha Abhiyan* in various States and agreed to look into the matter to ensure that audit fee is fixed on the basis of scope of work. Further, it was decided to form a group of experts to look into applicability of accounting standards and to modify the same, if required to make them applicable to all educational institutions so as to ensure more accountability and transparency in the system. We hope that necessary actions in this regard will follow soon.

Deferment of Implementation of Empanelment Policy: We wish to inform our members that a request has been made to the office of the Comptroller and Auditor General of India to defer the implementation of new policy of empanelment of CA firms and selection of auditors for public-sector units for next year, so that there is sufficient time to notify the same to all concerned. The decision taken by the C&AG will be in the long-term interests of the profession.

Representation to CBDT: We wish to let our stakeholders know that we have made a representation to CBDT requesting them to issue an appropriate clarification so that approvals granted by the Development Commissioners shall be considered as sufficient compliance for allowing deduction under section 10B of the Income-tax Act, 1961. Actually CBDT had issued an instruction that an approval granted by Development Commissioner shall be considered as valid once such an approval is ratified by the BoA for Export Oriented Undertaking Scheme. However, during the course of income tax assessments, the Assessing Officers ('AO') were taking a view that the approval granted by Development Commissioners is not equivalent to the approval given by BoA as required by provisions of section 10B of the Act. We hope to get this clarity soon in the interests of the profession.

Association with Telecom Ministry: We are pleased to inform that Ministry of Telecommunications has shown interest in associating itself in the formulation of Technical Guide on Revenue Recognition for Telecommunication Operators. Meanwhile we have included suggestions received from TRAI and MTNL on the Exposure Draft of the proposed Technical Guide and, as such, the finalisation is deferred for obvious reasons.

Assistance to National Academy of Direct Taxes: Realising our responsibility, we have proposed to National Academy of Direct Taxes (NADT), Nagpur, to have an ongoing programme of collaboration in view of an in-principle agreement that such an approach would be helpful in improving tax administration in the country. NADT had proposed to organise lectures for 63rd batch of IRS probationers on topics like Accounting Standards, Direct Taxes Code, etc., seeking our assistance. We will hold the programme for them soon.

Assistance to National Judicial Academy: It is a matter of pride to inform that since National Judicial Academy had requested us to organise a two-day capsulated introductory course on how concepts of taxable income are impacted by application of mandatory Accounting Standards for the judges of High Courts, we have written back to them proposing to organise training programmes for sitting judges of the High Court.

Recommendations on Dr. Bimal Jalan Committee's Report: It is satisfying for us that the recommendations/suggestions on Report on Review of Ownership and Governance of Market Infrastructure Institutions (MIIs) of Dr. Bimal Jalan's Committee constituted by SEBI has been complied and submitted to SEBI for consideration. To ensure good governance practices, we have proposed a representation of trading members, nominees of Government, CII, FICCI and Assocham on the Board of Stock Exchanges besides agreeing to other major recommendations made by the committee. The detailed comments, as submitted to SEBI, are published elsewhere in the journal for your information and feedback.

Group Formed to Assist GASAB: It is assuring for us that GASAB, constituted by C&AG, has sought our assistance in formulation of some of Indian Governmental Financial Reporting Standards (IGFRSs) to accelerate the process of formulation of Standards for the Government. We have constituted a study group to formulate IGFRS corresponding to IPSAS 1 and 2 for GASAB.

Meeting on Data on Trade in Services: We wish to inform our stakeholders that the undersigned along with ICAI Addl. Secretary Shri Rakesh Sehgal attended a meeting to discuss the issues relating to data on trade in services in New Delhi, which was chaired by the Finance Secretary Shri Ashok Chawla and attended by senior officials of RBI, Planning Commission, CBEC and Ministry of Tourism, among others.

Initiatives for Members

More Recognition of CA Course: We are happy to report that Indian Institute of Management (IIM, Kozhikode, Kerala) and National Law School of India University, Bangalore have extended facility to our members to pursue Fellow Programme i.e., PhD programme.

Arrangement with Microsoft: We would like to share the information that a Special Pricing (at very low rates) has been worked out with Microsoft for ICAI Members and Students, which is a part of Academic Licensing for providing latest edition of MS Windows and MS Office. Special pricing has also been worked out for providing Microsoft Licenses for ICAI offices and its ITT Centres.

Advisory on Audit Fee: We wish to inform our members that an advisory on minimum audit fee has been prepared to address and resolve the problems in issue of charging professional fees, which will be circulated shortly to our members and firms. Initiative has been taken to amend proviso under Regulation 192 relaxing charging of fee on percentage basis for non-attesting functions.

Convocation in Southern Region: We are happy to acknowledge that Convocation for Southern Region was held in Chennai, which was attended by the undersigned along with ICAI Vice-President CA. G. Ramaswamy and Central Council colleagues CA. V. Murali and CA. P. Rajendra Kumar, and SIRC Chairman CA. Babu Abraham Kallivayalil. In all, 248 associate members attended the function with family to strengthen their sense of attachment with the alma-mater. Hon'ble Mayor of Chennai Thiru. Ma. Subramanian was the Chief Guest on the occasion.

Placements: Second round of campus placement for UCO Bank was organised in Chennai, Kolkata, Mumbai and New Delhi centres. As many as 19 candidates were selected with an average salary of ₹8 lakh per annum.

Development in IFRS Convergence

Out of 38 IFRSs, we have sent 35 Indian Accounting Standards to NACAS to be forwarded to the Ministry of Corporate Affairs for notification. Out of the balance three, IFRS 9, *Financial Instruments*, and IAS 26, *Accounting and Reporting by Retirement Benefit Plans*, are not required to be notified at present, and IAS 41, *Agriculture*, has to be redrafted and, hence, need not be notified now.

Infrastructural Initiatives

New Branches of ICAI: We are delighted to inform that *Latur Branch* of WIRC was recently inaugurated by Shri Vilas Rao Deshmukh, the then Union Minister of Heavy Industries and Public Enterprises, and presently Union Minister for Rural Development and Panchayati Raj in the presence of the undersigned, Central Council colleagues CA. S. B. Zaware, CA. Jaydeep N. Shah and CA. Rajkumar S. Adukia, and WIRC Chairman CA. Sanjeev D. Lalan. The undersigned also formally inaugurated the *Sri Ganganagar Branch* of CIRC in the presence of Central Council member CA. Anuj Goyal and CIRC Chairperson CA. (Ms.) Kemisha Soni.

New Buildings of ICAI Branches: We are glad to communicate that the undersigned inaugurated new building of *Bhilai Branch* recently in the presence of Central Council colleagues CA. Manoj Fadnis and CA. Anuj Goyal, and CIRC Chairperson CA. (Ms.) Kemisha Soni. The undersigned also inaugurated the new building of *Sangrur Branch* and Information Technology Centre Lab in the presence of Central Council colleage CA. Sanjay Kumar Agarwal and NIRC Chairman and Vice-Chairman CA. Atul Gupta and CA. Vishal Garg respectively.

Other Initiatives

ICAI Vision & Mission Statement: It is a matter of satisfaction for us that draft Vision and Mission Statement of the Institute and profession has been postulated, which was placed as agenda item in a recent Council meeting for deliberation. Meanwhile, task to consolidate the key inputs and insights collected at various Vision Interactive Workshops has been initiated to draw out a comprehensive strategy and roadmap for achieving the Vision and Mission practically and qualitatively.

Revision in Companies Act, 1956: We wish to inform our stakeholders that draft of revised Schedule XIV to the Companies Act, 1956 was considered and revised as per the suggestions made by NACAS, and was placed before them for consideration. With certain changes, they have approved our revised draft.

On Incentives for Employees: To consider the medical needs of the employees of Institute, the Executive Committee has decided to examine the feasibility of setting up an *In-house Trust* or extending a *Group Medical Scheme*, which would cover the retired employees as well. After discussing the matter thoroughly, the Committee would bring the matter to the Council along with its recommendations at a later stage.

Results of Final and Final (New) Examination, and CPT Declared

We wish to inform that results of Final and Final (New) Examination held in November 2010 and *Common Proficiency Test* held in December 2010 have been declared. We are happy that overall results this time are better than satisfactory. In Final Examinations, on an average 10.79 per cent students have passed in both the groups against appearing in both; 29.65 per cent and 19.32 per cent students have passed in first and second group respectively against appearing in respective groups. In Final (New) Examinations, on an average 9.344 per cent students have passed in both group against appearing in both; and 20.37 per cent and 11.33 per cent students have passed in first and second group respectively against appearing in respective group. Toppers in Final and Final (New) Examination are from various regions.

It is satisfying to note that percentage of female successful students is better than male students in both Final Examination and CPT. Overall, 25.99 per cent students (31878 out of 122639) have passed in the CPT examination. Toppers of CPT are from Andhra Pradesh. After observing the results this year, we sincerely hope and wish that students, both male and female, will keep bettering their previous performances in the years to come.

Let me recall here the confession of a celebrated journalist Shri Khushwant Singh: *It is work...that keeps me going... No matter what happens I don't let everyday tensions come in the way of my work and the deadlines I have for the day. I jot down my deadlines for the day in the morning itself and don't retire till I have completed the day's work... There is really no substitute for work.* I find myself in complete agreement with what he says. These are my recommendations too, to the members, students and staff of my Institute. I would like to assure them that the Council of the Institute will continue to work towards the growth and welfare of both the Institute and the profession. I have always believed in what John F. Kennedy had once told his citizens: *... ask not what your country can do for you - ask what you can do for your country... what together we can do for the freedom of man.* Let us show what we can do together for the uplift of the profession and the image of the Institute.

I would like to thank the ICAI Vice-President CA. G. Ramaswamy and all my Central Council colleagues for mutual active and willing help, cooperation and contribution in the growth and development of profession. I never forget my associations. In fact, this is one of the basic instincts of human beings, which sets and proclaims our destiny. I will keep coming back to the Institute to keep the interests of our profession safe and guarded. Though we generally hate to say *goodbye*, let me inform you that *goodbye* can not be an end. I know, our paths will certainly cross each other a number of times in the years to come and we will continue to meet and work together again and again.

In this last communication of mine as President of the Institute that I have used to make till date on behalf of the Council of ICAI, I would like to wish all, quoting Irish blessings:

May flowers always line your path
and sunshine light your day.
May songbirds serenade you
every step along the way.
May a rainbow run beside you in
a sky that's always blue.
And may happiness fill your heart
each day your whole life through.
May the road rise up to meet you.
May the wind be ever at your
back.
May the sun shine warm upon
your face and the rain fall softly
on your fields.
And until we meet again, May
God hold you in the hollow of his
hand.

It may appear that a certain moment is over, but let me give you another perspective that together we have created some of the best moments of pride for the profession as well as for the Institute in the recent past and we will continue this joint endeavour in future too. Though some of our endeavours may suffer due to discontinuity, but endeavours of greater concerns will continue to stay before us till they get fulfilled; winds may extinguish a candle but eventually fan a fire, it is said. I have come to understand and realise that our journey in life is not about knowledge about everything we desire, but about taking our life head on and making the best of it with all our heart and courage.

From the precedence, I have a satisfaction and a strong belief that the leadership of the Institute will certainly go into deserving hands. I extend my heartiest and warmest wishes to the future leadership, and record the same in advance. I assure the future leadership that my efforts and drives would remain subservient in the interests of the profession and the Institute.

I submit myself to the cause of my profession.

I have not forgotten even for a fraction of second that there is so much to do and comparatively very less time to do that in. I conclude with Epilogue in 'History of the Accountancy Profession in India' written by our first President Shri Kapadia:

The task stands accomplished
Nay—it has just begun
It's not a question of what stands
achieved
It's a question of what still
remains to be done
And am I not a creature of
Destiny
A mere instrument for 'His
Purpose'
My assignment I see as one of
duty
Fruits whereof I cannot and do
not seek
With humility and full dedication
I salute my Institute—I adore my
profession.

Adieu!
Best wishes

CA. Amarjit Chopra
President, ICAI
January 25, 2011

ICAI Going Strong: *Significant Achievements since February 2010*

Starting with the growth that The Institute of Chartered Accountants of India has witnessed since 1949, the Council of the Institute, under the great visionary leadership and with the help and support of staff of the Institute, has accelerated the growth in the Institute and brought it on a rising curve status. Various committees and boards of the Institute have contributed in that by doing an excellent job from their side. Whether it is a case of our initiatives towards our partnership in nation-building and social responsibility, or regarding the progress and growth of our members, or regarding the welfare and betterment of our student community, there has been growth in all directions and for all stakeholders of the accountancy profession. This growth has set the pace and put further challenges before the Institute in the years to come.

Following is a brief report on the significant development in various sectors of the profession made since February 2010 by the Institute:

Initiatives for Members: *Reaching and Empowering Associates and Fellows*

MoUs/MRAs/Recognitions/Other Arrangements

- ICAI granted recognition by IGNOU as a *Research Centre* for the benefit of its members and employees to pursue doctoral research from IGNOU.
- IIM Kozhikode, IIM Shillong and National Law School of India University, Bangalore extended facility to our members to pursue *Fellow Programme including PhD*.
- MoU with *Corporation Bank* took place to provide liberalised loan to CA members and firms.
- ICAI faculty was recognised to act as *supervisors for PhD programme* at Guru Govind Singh Indraprashtha University.
- Arrangement has been worked out with *Microsoft as Academic Licensing* for providing latest edition of MS Windows and MS Office to members and students on a special (very low) price, and also to ICAI and its ITT Centres.
- MoU was signed with *CBEC* and later a supplementary MoU was entered into, whereby ICAI undertook to act as *facilitator for the Automation of Central Excise and Customs* (ACES) Project of CBEC. Now, practicing members can provide facility of e-filing of returns and documents to central excise and service tax assessees through Certified Facilitation Centres.
- Tie-up with *C-MOTS Internet Technologies Pvt. Ltd.* for providing access to Capitaline TP Corporate Database (online version) at a special discounted price was done for doing comparative study on transfer pricing.

Capacity Building Measures for SMPs

- Ready-to-use *illustrative checklist for various professional needs* was compiled and launched by CA. K. Rehman Khan, Deputy Chairman Rajya Sabha in a tool kit containing KDOC and *eSecretary,* and was circulated.
- Meeting of bigger firms was held to discuss the status of profession, to promote hand-holding with SMPs and to create public discussion forum to contribute on capacity building of SMPs.
- Seven *professional development programmes* on capacity building measures and networking of CA members, firms and SMPs were held in Mumbai, Patna, Agra, Pune, Bangalore, Hyderabad, Amritsar, Faridabad, Satna, Solapur, Jalandhar, Ludhiana, Bhatinda, Lucknow, Nashik, Karnal, Indore, Varanasi, Baroda, Chennai and New Delhi.

Chartered Accountants Benevolent Fund

- To acknowledge contributions to the Chartered Accountants Benevolent Fund (CABF), photographs of contributors donating ₹50,000 or more and names of all donating ₹5,100 or more are being published. Online facility to contribute has also been created on ICAI website.
- Contribution received since February 2010 is approximately ₹2,11,74,176/- out of which ₹96,56,000/- have been received as voluntary contribution. This year, the collection is more than double of what was collected in the last Council year. However, this collection is expected to touch ₹2,30,00,000/- mark by the end of this Council year. Approximately ₹1,65,17,500/- was granted as financial assistance to family of the demised members in this Council year.

IFRS Convergence

- ICAI was designated as *Nodal Agency for imparting IFRS education.*
- Comments on the following IASB Exposure Drafts/ Discussion Papers have been submitted:
  1. Exposure Draft on Financial Instruments: Amotised Cost and Impairment
  2. Exposure Draft on Measurement of Liabilities in IAS 37: Proposed amendments to IAS 37
  3. Exposure Draft on Conceptual Framework for Financial Reporting: The Reporting Entity
  4. Exposure Draft on Defined Benefit Plans : Proposed Amendments to IAS 19
  5. Exposure Draft on Fair Value Option for Financial Liabilities
  6. Exposure Draft on Revenue from Contracts from Customers
- All 35 Indian Accounting Standards equivalent to the respective IASs/IFRSs have been sent to NACAS. At present in all, there are 38 IFRS out of which IFRS 9, Financial Instruments, and IAS 26, Accounting and Reporting by Retirement Benefit Plans, are not required to be notified at present. IAS 41, Agriculture, has to be redrafted and, therefore, need not be notified now. Accordingly, following 35 Accounting Standards to be notified by the Government have been sent to NACAS:
  1. IND AS 1 corresponding to IAS 1, Presentation of *Financial* Statements
  2. IND AS 2 corresponding to IAS 2, Inventories
  3. IND AS 7 corresponding to IAS 7, Statement of Cash Flows
  4. IND AS 8 corresponding to IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors
  5. IND AS 10 corresponding to IAS 10, Events after the Reporting Period
  6. IND AS 11 corresponding to IAS 11, Construction Contracts
  7. IND AS 12 corresponding to IAS 12, Income Taxes
  8. IND AS 16 corresponding to IAS 16, Property, Plant and Equipment
  9. IND AS 17 corresponding to IAS 17, Leases
  10. IND AS 18 corresponding to IAS 18, Revenue
  11. IND AS 19 corresponding to IAS 19, Employee Benefits
  12. IND AS 20 corresponding to IAS 20, Accounting for Government

Grants and Disclosure of Government Assistance
13. IND AS 21 corresponding to IAS 21, The Effects of Changes in Foreign Exchange Rates
14. IND AS 23 corresponding to IAS 23, Borrowing Costs;
15. IND AS 24 corresponding to IAS 24, Related Party Disclosures
16. IND AS 27 corresponding to IAS 27, Consolidated and Separate Financial Statements
17. IND AS 28 corresponding to IAS 28, Investment in Associates
18. IND AS 29 corresponding to IAS 29, Financial Reporting in Hyperinflationary Economies
19. IND AS 31 corresponding to IAS 31, Interest In Joint Ventures
20. IND AS 32 corresponding to IAS 32, Financial Instruments: Presentation
21. IND AS 33 corresponding to IAS 33, Earnings per Share
22. IND AS 34 corresponding to IAS 34, Interim Financial Reporting
23. IND AS 36 corresponding to IAS 36, Impairment of Assets
24. IND AS 37 corresponding to IAS 37, Provisions and Contingent Liabilities and Contingent Assets
25. IND AS 38 corresponding to IAS 38, Intangible Assets
26. IND AS 39 corresponding to IAS 39, Financial Instruments: Recognition and Measurement

ICAI AWARDS 2010

For Excellence in Service by CAs in Industry

The Institute of Chartered Accountants of India (ICAI) organised 'The Corporate Forum 2011' and distributed ICAI Awards 2010 on 30th January 2011 in Science City, Kolkata to honour those who have demonstrated excellence in the professional life, personal life and are role models for others in Industry. These awards seek to acknowledge Chartered Accountants who have created value for the company's shareholders on sustainable basis.

The ICAI Expresses Sincere Gratitude Towards the Members of Jury for the ICAI Awards 2010, led by Shri Adi Godrej, Chairman Godrej Industries Ltd.

Shri Adi Godrej

The Jury comprised Chairman Shri Adi Godrej, Shri. Anil K. Agarwal, Former President, ASSOCHAM, Shri. A. M. Naik, CMD, L&T Ltd, Smt. Chanda Kochhar, MD & CEO, ICICI Bank Ltd., Shri. Deepak S. Parekh, Chairman, HDFC Ltd., Shri. H.M Bangur, MD, Shree Cement Ltd., Shri. J.J. Irani, Director, TATA Sons Ltd., CA. Kamlesh S. Vikamsey, Former President, ICAI, Shri. Milind Murli Deora, Member of Parliament, Lok Sabha, Shri. Nimesh N. Kampani, Chairman, JM Financial Group, Shri. Partha S. Bhattacharyya, Chairman, Coal India Ltd., Shri. Prabhu Chawla, CEO & Editor, Language Publications, India Today, Shri. Raj Kumar Dhoot, Member of Parliament, Rajya Sabha, Shri. Rana Kapoor, MD & CEO, Yes Bank, Shri. Rashesh Shah, Chairman, CEO & Founder, Edelweiss Capital Ltd., Shri. Rohinton Soli Screwvala, CMD, UTV Software Communication Ltd., Shri. R.S. Sharma, CMD, ONGC Ltd., Shri Sanjiv Goenka, Vice Chairman, RPG Enterprises, Mr V K Viswanathan, MD, Bosch Ltd.

27. IND AS 40 corresponding to IAS 40, Investment Property
28. IND AS 101 corresponding to IFRS 1, First-time Adoption of International Financial Reporting Standards
29. IND AS 102 corresponding to IFRS 2, Share-based Payment
30. IND AS 103 corresponding to IFRS 3, Business Combinations
31. IND AS 104 corresponding to IFRS 4, Insurance Contracts
32. IND AS 105 corresponding to IFRS 5, Non-current Assets Held for Sale and Discontinued Operations
33. IND AS 106 corresponding to IFRS 6, Exploration for and Evaluation of Mineral Resources
34. IND AS 107 corresponding to IFRS 7, Financial Instruments: Disclosures
35. IND AS 108 corresponding to IFRS 8, Operating Segments

- ICAI, while appreciating the emerging diversities and complexities in the world of accounting and the need for knowledge on IFRS in relation to the convergence of the Indian Accounting Standards with IFRS, had launched an extensive 100-hour Certificate Course on IFRSs in 2008. ICAI is spearheading the Convergence in a phased manner with help of a chain of 36 workshops across the nation to create awareness about preparedness.

Professional Avenues/Development

- Peer Review Certificates were considered and issued in 921 cases since February 2010.
- Convocations were successfully held in Mumbai, Baroda, Chennai, Bangalore, Kolkata, Kanpur, Jaipur, New Delhi and Ludhiana for about 2000 members in total.
- Since February 2010, 71 additional members of the Institute have been empanelled on FRRB.
- A record number of more than 800 examiners were empanelled since March, 2010.
- A blind chartered accountant with CoP was permitted to sign General Purpose Financial Statements or to carry out other attest functions.
- Registrar of Co-operative Societies, Registrar Generals of High Courts, Chambers of Commerce/Trade Bodies/Associations and Federation of Commerce, International Chamber of Commerce (ICC), Director General, Standing Conference of Public Enterprises, Secretary, Maharatta Chamber of Commerce, Industries & Agriculture, World Intellectual Property Organisation, Switzerland, and others have been contacted and communicated with regard to empathise the role of ADR mechanism and to promote the ICAI panel of arbitrators.
- Ministry of Finance and Reserve Bank of India agreed not to open the complete list of eligible Central Statutory Auditors for the banks to select their auditors, and, accordingly, list of auditors was released in the ratio of 2:1 against number of available vacancies.
- NABARD agreed to delete the clause pertaining to negotiation of audit fee from the policy circular regarding fixation of fees of auditors of State and District Cooperative Banks (applicable from next year onwards).
- State Bank of Patiala suitably increased auditor fee for income audit depending upon category of branch and volume of business at the branch.
- Office of Commissioner for Cooperation and Registrar of Cooperative Societies of Pune agreed to take a panel of Maharashtra-based CA firms for conducting audit of urban cooperative banks and cooperative societies other than UCBs for the state of Maharashtra from ICAI as per the criteria and point system provided by them.

- State Bank of India initiated the process to appoint single tax auditor in terms of RBI circulars issued in July 2007 and December 2009 allowing all public-sector banks to appoint at branch/head office level, any CA firm as their tax auditor at a reasonable fee with approval of their Board/ACB.

Representations to Ministries/Regulators

- Representation was made to CBDT requesting them to issue an *appropriate clarification regarding approvals granted by Development Commissioners* considered as sufficient compliance for allowing deduction under section 10B of the Act.
- Representation was made to C&AG of India to *defer the implementation of new policy* of *empanelment* of CA firms and selection of auditors for public-sector units for next year.
- Representation was made to CBDT with regard to difficulty being faced by Indian/foreign companies while using *PAN encrypted* DSC. CBDT, as a result, relaxed this requirement for non-resident signatories of foreign companies.
- Representation was made to *CBEC* to extend the exemption to works contract services when provided wholly within the airport with retrospective effect to eliminate the anomaly created by *Notification Nos. 31/2010 ST and 40-43/ 2010 ST.*
- Representation was made to *Ministry of Communications & Information Technology* to allow CAs to represent matters before Cyber Appellate Tribunal.
- Representation was made to *Controller General of Patents, Designs & Trade Marks* with a suggestion to exempt CAs to pass examination prescribed under Rule 154 of the Trade Mark Rules, 2002 to become a Registered Trade Mark Agent.
- Representation was made to *Ministry of Finance suggesting* that the DRT Act and Rules may suitably be amended.
- Representation was made to *Law & Judiciary Department, Government of Maharashtra,* for improving the functioning at the office of the Registrar of Firms.
- Representations to *various regulators* were made to take concrete steps to ensure that only CAs are permitted to undertake internal audit assignments.
- GASAB constituted by C&AG has sought the assistance of ICAI in formulation of some of the Indian Governmental Financial Reporting Standards (IGFRSs) to accelerate the process of formulation of Standards.

Responses to/from Ministries/Regulators

- Report on *Direct Taxes Code Bill,* 2009 was submitted to the Ministry of Finance and a majority of them were accepted and incorporated in the revised *Discussion Paper* and in the *Direct Taxes Code Bill, 2010.*
- *Suggestions on Companies Bill, 2009, Company (Court) Rules, 1959, Draft International Standard ISO 26000 (Guidance on Social Responsibility), and Applicability of Foreign Direct Investments in LLP* were submitted to Ministry of Corporate Affairs.
- Amendments proposed in Cost and Works Accountants Act, 1959 by the Cost and Works Accountants (Amendment) Bill, 2010 for changing the name of the *Institute of Cost and Works Accountants of India (ICWAI) to Institute of Cost and Managements Accountants of India (ICMAI)* were strongly opposed in the larger interest of the profession, as the proposed change will limit the scope of chartered accountants and will adversely affect their prospects.
- As India is a member of the working group of ASOOG on foreign currency, a study group was constituted to identify various research issues and modus operendi of foreign currency accounting in respect of IAS 21. As India is leading the AOSSG Group on Agriculture, a study group was constituted to prepare a research paper on the subject and to prepare the draft of Indian Accounting Standard on Agriculture.
- Comments on *Discussion Paper on Foreign Direct Investment (FDI) in Multi-Brand Retail Trading* were submitted to the Ministry of Commerce & Industry.
- Draft formats of the auditor's certificate to be issued by the Statutory auditors for availing the CENVAT Credit in terms of the recent circular on *Problems faced by exporters in availing refund of excess credit* issued by Ministry of Finance were developed and submitted to its Department of Revenue.
- Interim Report on *Increasing the Revenue of the State & Convergence of Resources that flow to the State in various forms* has been submitted to Department of Finance, Government of Meghalaya.
- Lok Sabha Secretariat has requested ICAI for suggestions on *Direct Taxes Code Bill, 2010.*
- Presentation was made on *Direct Taxes Code* and the Revised Discussion Paper in the presence of Secretary and other officials of Ministry of Corporate Affairs.
- Comments on draft *Discussion Paper on National Anti Corruption Strategy* issued by the Central Vigilance Commission were sent to OSD, Central Vigilance Commission.
- *Pre-Budget Memorandum–2011* containing suggestions on law relating to central excise and customs duty, and service tax, and *Post-Budget Memorandum–2011* containing suggestions on issues arising out of indirect tax proposals of Finance Bill, 2010 were submitted to Ministry of Finance.
- In view of the proposed amendments of the Finance Bill, 2010 in industrial and residential construction services, *Concept Note on Determination of Value of Taxable Services in respect of Industrial Construction and Construction of Residential Complex* was submitted to the Ministry of Finance.
- Background paper on Accountancy Services (S/C/W/316) was finalised and was sent to Ministry of Commerce and Ministry of Corporate Affairs.
- Comments/suggestions on *Draft Point of Taxation (for Services Provided or Received in India)* Rules, 2010 issued by CBEC were submitted to CBEC and successful discussion was held with senior officials of Ministry of Finance.
- *Bank Branch Auditors' Panel* for 2010-11 was submitted to RBI.
- Report on *concurrent audit of banks* was submitted to RBI, which is being used as a base document for a tripartite meeting of officials of RBI, IBA & ICAI.
- Clause-wise exhaustive comments along with suggestions on the report submitted by *Takeover Regulations Advisory Committee* of SEBI were compiled and submitted to SEBI.
- Comments including proposals, suggestions and recommendations on *Report of Dr. Bimal Jalan Committee* of SEBI regarding issues arising from the ownership and governance of Market Infrastructure Institutions (MIIs) were submitted to SEBI.
- Draft of Schedule VI to the Companies Act, 1956 was

formulated and approved subsequently by NACAS, and then it was sent to the Government. Draft of Schedule XVI to the Companies Act, 1956 was revised in compliance with the Indian Accounting Standards converged with IFRS and was subsequently approved by NACAS.

- Issue of problems being faced by the statutory auditors in issuing the certificate regarding the activities of a liaison office in terms of requirement relating to RBI's *Liaison Office Annual Activity Certificate* was communicated to Ministry of Finance.
- An expression of interest was sent to RBI for offering the service of the ICAI towards the RBI's endeavours on spreading the *Project Financial Literacy* in the nation.
- Presentation was made on *Enhancing Effectiveness of Chartered Accountants' Role in Banking Sector* focusing on areas including migration to IFRSs, XBRL in banking sector apart from traditional areas like ISA, revenue audit, debtor's audit, credit audit, etc., in Managing Committee Meeting of the IBA held in Mumbai.
- Acting on the request of Ministry of Finance, ICAI presented its *suggestions on Direct Taxes* in Pre-Budget Meeting convened by the Department of Revenue, which were well received by senior officials of CBDT including the Chairman.
- CBDT requested ICAI to assist in framing the process flow of the important chapters under *Direct Taxes Code* for the locating and harmonising the internal inconsistencies, if any, between the various provisions of the Code.
- Foreign Investment Implementation Authority was requested for association with ICAI on various tasks of knowledge sharing.

Meetings with Ministries/Regulators

- Meeting with Ministry of Labour and Employment was held regarding the *concerns on tendering process* and emphasised that L1, i.e. lowest bidder, can't be the sole criteria of selecting a professional for a qualitative job.
- Later, a meeting with Ministry of HRD was held regarding selection of L1 bidders for audit assignment being tendered for *Sarva Shiksha Abhiyan* in various States and audit fee to be fixed on the basis of scope of work.
- Meeting was held with Department of Financial Services, Ministry of Finance to discuss the issue of *autonomy given to public sector banks in respect of appointment of auditors.*
- Meeting was held with Commissioner of Income Tax (TDS) regarding TDS *credit lying in Suspense Account,* where representatives from BCAS, RBI, SBI, Bank of India, Axis Bank, Kotak Mahindra Bank, NSDL and ITD-Systems were present.
- Meeting with Ministry of Corporate Affairs was held on *Citizen Charter and Grievances Redressal mechanism.*
- Meetings with various dignitaries such as CA. Rahman Khan, Dy. Chairman, Rajya Sabha, Shri Bhupinder Singh Hooda, Hon'ble Chief Minister of Haryana, Prof. Prem Kumar Dhumal, Hon'ble Chief Minister of Himachal Pradesh, Shri C K Mathew, IAS, Principal Secretary (Finance), Government of Rajasthan, and Dr. M. Ariz Ahammed, IAS, Secretary to the Government of Assam, took place to *create professional opportunities and to highlight role and need of CAs* in assisting the Government.
- Meeting with senior officials of CBEC was held in response to its communication seeking information on *Legal Provisions and Practices followed by different States under VAT Laws* for Audit and Scrutiny.
- Various meetings were held in *Ministry of Railways, Human Resource Development, Panchayati Raj, Labour & Employment and Planning Commission* to explore new areas for profession.
- *GST Round Table* was organised in Kolkata with key officials of the State Finance Department and VAT Departments of north-east States.

Other Significant Initiatives

- Fee exemption to the members of the Institute on the ground of the physical disability to the extent of fifty percent of the registration fee payable to the various post-qualification courses of ICAI has been granted.
- Regarding uploading of events organised jointly by two programme organising units (POUs) on CPE Portal, only one of the Study Circles should be permitted to upload the same. POUs may be advised to record the attendance on the CPE Portal within 48 hours of holding the programme.
- Joint programmes could be conducted with voluntary CA associations and reputed national-level non-POUs but CPE hours cannot be granted for the same. POUs have been informed that Study Circles should preferably conduct the programmes within a radius of 2 kilometers of his jurisdiction. They should conduct only short-duration programmes namely half-day or one-day.
- It was decided to revise the Statement on Peer Review and in order to amend the Statement on Peer Review a Study Group was constituted for the same.
- Transfer/termination of articles is permitted without any restriction during the first year and, during the rest of the articleship period, it is permitted on satisfaction of the prescribed grounds given on ICAI website.
- Selection criterion methodology for selection of enterprises for review of financial statements and auditor's reports was revised. 106 enterprises were selected for reviewed.
- Approximately 700 grievances/queries for clarification in ethics were received from members since February 2010, and were disposed off successfully.
- Transfer Pricing Certification Services being a certification work are permissible for an auditor of an entity, and the issue of independence is not involved.
- Consultancy work is permissible with the assignment of internal audit.
- Exemption to be given from provisions of Minimum Audit Fees in case of public sector/other banks in charging fees for other similar assignments along with concurrent audit.
- Use of CA logo in the stamp is permissible subject to the fulfillment of CA logo guidelines issued by the Institute.
- CAs in practice may accept a professional assignment of investigation given by an Insurance Company.
- An indebtedness of ₹1000/- or more would not impact a member's qualification as internal auditor of the company.
- In case of a CA firm providing Internal Audit and Tax Consultancy services to a holding company accepting appointment as the statutory auditor in the subsidiary company, there is possibility of independence of the auditor being compromised in the perception of ethics

from the view point of the public. Hence the said assignment is not permissible.
- Members were given option to get the copy of their journal at their residential addresses if they so desired.

Workshops/Training Programmes

- Members working as employees in the Institute were trained in various aspects of convergence and implementation of IFRS.
- Four-day training workshops on *Audit Excellence* were organised in New Delhi, Chennai, Mumbai and Kolkata.
- Conclave on *Emerging Paradigm of Insurance and the Role of Accounting Profession* was organised at Indian Merchants' Chamber in Mumbai
- Three Orientation Programmes, a part of *DIRM Course Curriculum,* were organised in Mumbai, Kolkata and New Delhi.
- *47 ISA Batches* of about 1800 candidates have completed their professional training across the nation.
- One-day *Workshops on Service Tax* and *Internal Audit* were organised at Baroda.
- Three-day *Residential Workshop on Service Tax* was organised in Hyderabad.
- *National Workshop on Internal Audit and Risk Management for Public Sector Enterprises* was organised in New Delhi.
- *Workshop on Internal Audit of Mutual* Funds was organised in Mumbai.
- Two-day *National Workshop on Compliance Aspects of Accounting Standards and Other Reporting Requirements* was organised in Mumbai.
- One-day *Interactive Workshop for Experts on Testing and Evaluation Strategy* was held in Chennai.
- National Workshop on *Excellence in Approach* was organised in Patna and Jabalpur.
- Two-day National Workshop on *Financial Reporting* was held at Moradabad.
- Workshop on *Service Tax and GST* and *Financial Instruments* was organised in Kolkata and Siliguri, and Kolkata respectively.
- Workshop on *Direct & Indirect Taxes* was organised in Cuttack.
- Workshop on *Taxation* was organised in New Delhi.
- Workshop on *Professional Skill in Indirect Taxes* was organised at Raipur.
- *Residential Refresher Course* was organised at Salasar in Rajasthan.
- Workshop on *IFRS & XBRL* was held in Surat.
- Workshop on *Excellence in Service Tax* was held at Mathura.
- Workshops on *Professional Opportunities in Competition/ Consumer Laws and FEMA - Inbound and Outbound Investments* were organised in Mumbai.
- Workshops on *Non-Banking Financial Companies* was organised in Kolkata.
- Workshop on *Labour Laws* was organised in Lucknow.
- *Workshops on Real Estate* were organised in Kolkata and Hyderabad.
- Workshop on *Emerging Professional Opportunities in Business Law* was organised in Mumbai, Thane and Pune.
- *Full-day Workshop on FEMA* was organised in Baroda.
- *30-day Personal Contact Programme* with regard to ITL & WTO Course was organised in New Delhi.
- *Two-day Residential Refresher Course* was organised at Bodhgaya.
- *Two-day Workshop on Securities Laws* was organised in Mumbai.

Workshops/Conferences for Government Officials

- *In-House Executive Development Programmes (IHEDPs) on IFRS* were organised for the officials of NHPC, HAL, HPCL and ONGC. Similar programmes on *Finance for Non-Finance* and *Service Tax, VAT* and *GST* were conducted for the officials of ONGC and Indian Oil Corporation Ltd. respectively, and on *Internal Audit* and *Indirect Taxation* were conducted for the officials of NHPC and ONGC.
- Workshop on *Direct Tax Proposals of Union Budget 2010-11* was organised, which was attended and appreciated by the officials of CBDT and senior professionals from industry.
- *Training Programme on VAT Audit Manual* was organised for the officials of Superintendent of Taxes and above, and for the Inspector of Taxes of Govt. of Mizoram.
- *Training Programme on Double Entry Accounting System on Cash Basis, Tally ERP 9 & Procurement Guidelines* under World Bank Project was organised for the officials of Survey of India.
- One-day workshop on *Forensic Accounting & Fraud Detection* was organised in Pune for RBI Officials.
- *Workshop on Union Budget–2010* was organised in New Delhi to discuss the Indirect Tax proposals with the Officials of CBEC.
- Mega 'Professional Excellence' CPE programme on *Corporate Governance, Capital Markets and Investors' Protection* was jointly organised with the Ministry of Corporate Affairs.
- Teleconferencing programmes were organised on *Convergence with IFRS, Provisions of Finance Bill 2010- A Clause by Clause Analysis, Role of CAs in Corporate Governance, Statutory Audit of Branches of Bank, Wealth Creation in Capital Markets, Current issues of Professional Relevance, Preparation & Analysis of Project Report and Revised Discussion Paper on Direct Taxes Code – A Threadbare Analysis* at IGNOU, New Delhi.
- Half-day Seminars on *Sustainable Business* was organised jointly with the Ministry of Corporate Affairs at about 25 places.
- Several programmes on the *Company Law Settlement Scheme* and *Easy Exit Scheme* introduced by the Ministry of Corporate Affairs were organised.

Conferences/Seminars/Programmes

- *International Conference on Accountancy Profession: Catalyst to Sustained Economic Growth* was organised in New Delhi.
- Two-day National Conference on *Rising to the Challenges in Public Finance & Government Accounting* was organised at Ghaziabad.
- *National Conference on Direct Taxes* was organised in Goa, Nagpur and New Delhi.
- One-/two-day programmes on *learning and awareness on audit* organised at Mathura, Indore, Udaipur, Kolkata and Baroda.
- One-day *Programme on Practice and Procedures before CESTAT* was organised in Kolkata, Bangalore, Ahmedabad and New Delhi.
- Seminars, conferences and programmes on

International Taxation were organised in Chandigarh, Rajkot, Bangalore, Kolkata, Jodhpur and New Delhi.

- *National Conferences on Tax Laws* and on Direct and Indirect Taxes were organised at Ernakulam and at Ernakulam and Kanpur respectively.
- Technical programmes on *Banking, Insurance* and *Pension* were conducted in Amritsar, Bhopal, Lucknow, Nagpur and Trichy.
- About 154 Investor Awareness programmes were organised during Indian Investor Week of the Ministry of Corporate Affairs on *Informed Investor–An Asset to Corporate India.*
- *National Seminar on GST and Service Tax* was organised in Goa.
- National Conference on Indirect *Taxes and Direct and Indirect Taxes* was organised in Nagpur and Kanpur respectively.
- *Full-Day Programme on GST – Road Ahead* was organised in Kolkata.
- Two-day Programme for Members in Industry on *IFRS–Unveiling the New Era of Accounting* was organised in Kolkata.
- *Seminars on Indian Capital Market–Its Growth Potential and Challenges* and *International Financial Reporting Standards* were held in Kolkata.
- Five-day Residential Programme on *IFRSs* was organised in Gangtok.
- Two-day Residential Refresher Course on *Enhancing the Knowledge of Members in the New Economic Era* was organised at Jim Corbett National Park in Uttranchal.
- Two-day National Conference for Members in Industry on *International Financial Reporting Standards* was organised in Bangalore.
- *CFO/CEO Meet* was held in Mumbai, Pune, Coimbatore and Indore.
- *ICAI–Industry HR Meet* was organised in Mumbai, Bangalore, Chennai, New Delhi, Hyderabad and Kolkata.
- National Conference on Construction Industry was held in Mumbai.
- Conference on *Excellence in Audit & Financial Reporting* was organised in Udaipur.
- *Seminar on Internal Audit* was organised in Kanpur.
- Two-day *Conference on Excellence in Financial Reporting* was organised in Kolkata.
- Seminars on *Internal Audit and Risk Management,* and *Internal Audit* were organised in Ludhiana and Hyderabad respectively.
- *Seminar on Social Audit* was organised in New Delhi.
- *National Conference on Financial Reporting and Professional Ethics* was organised in Allahabad.
- Seminar on Capital Markets was successfully organised in Kolkata.
- Knowledge-sharing programme on *Arbitration and Carbon Credit* was jointly organised with the Federation of Andhra Pradesh Chamber of Commerce & Industry, Hyderabad.
- *Two-day Conference on Management of Fiscal & Natural Wealth* was organised in Lucknow.

Certificate Courses

- Six batches of the *Certificate Course on International Taxation* in Hyderabad, New Delhi, Mumbai, Chennai and Kolkata were organised.
- 13 batches on *Certificate Course on Valuation* have been successfully completed.
- Examinations for the first batch of *Master in Business Finance Certificate Course* were conducted, where a total of 53 candidates qualified.
- Two batches of *Certificate Course on Forex and Treasury Management* were concluded in Delhi as well as Mumbai.

On Disciplinary Cases

- 20 meeting(s) of Board of Discipline under Section 21-A, Disciplinary Committee under Section 21-B and Disciplinary Committee under Section 21-D have taken place spanning over 31 days, whereat 123 cases have been concluded.

Placements

- Placement programme was held through *video conferencing* for the organisations of Gulf Cooperation Council/Middle-East countries.
- Campus placement for *newly-qualified chartered accountants* was held twice at sixteen centres across the nation each time. Against a total of 6042 candidates registered, 2809 jobs were offered. Highest salary for domestic and international postings offered were ₹15 lakh and ₹70 lakh per annum respectively.
- Special campus placement was held for *chartered accountants* who underwent three-month residential programme on Professional Skills Development at NIFM, Faridabad, where 35 offers were made to candidates. The maximum salary offered was ₹8.74 lakh per annum.
- Special placement programme was held for *experienced chartered accountants and for those who had no or less than one year experience* in Bangalore, Chennai, Kolkata, Jaipur and Pune. Against a total of 1148 candidates registered, 198 jobs were offered. Highest salary offered for domestic and international posting was ₹12 lakh and ₹21 lakh per annum respectively.

Initiatives for Students: *Helping and Shaping Young Minds*

MoUs/MRAs/Recognitions/Other Arrangements

- Tie-up with NSEiT was done to conduct online CPT examinations covering larger number of cities and candidates.

Workshops/Training Programmes

- About 57,500 students were imparted IT training through 152 ITT centres across the nation.
- 47 career counseling programmes were organised by 21 branches.
- GMCS courses were held in all Regional Councils at 148 centres for 244 batches containing 9,921 students.
- Six-week *Residential Programme* held at Hyderabad.
- Two batches of three-month *Residential Programme on Professional Skills Development* jointly organised with NIFM, Faridabad.
- Orientation Programmes were held in all Regional Councils at 158 Centres for 891 Batches containing 46,455 students.

Conferences/Seminars/Programmes

- International Conference of CA Students was organised on Indian *Accountancy Profession – Marching towards*

Global Centre Stage at University of Delhi, India.
- Seven Branches/Regions and 11 Branches organised National Conventions/Conferences and Regional Conferences respectively.
- 39 one-day Seminars were organised by 15 Branches.
- Elocution & Quiz Contests were organised by 49 and 51 Branches respectively and by the Regional Councils.

Placements
- Campus Placement Programme for articled assistants was organised in New Delhi as a pilot project.

Other Significant Initiatives
- Board of Studies and Examination department met paper-setters and head examiners, and took certain student-friendly decisions, viz. to host suggested answers on ICAI website within 25 to 30 days after completion of examination work, to make study materials more application-oriented, to include case-studies in various subjects, etc.
- PE (Course – II) students have been allowed to *commence articled training* after passing one of the Groups in PE (Examination – II) subject to switching over to IPCC and completion of 100-hour ITT.
- PE (Course – II) students irrespective of switching over to other courses and on passing both groups either under PEE-II/ PCE/IPCE have been permitted to appear in Final examinations during the last twelve months of the prescribed period of articled training.
- PCC students on passing both groups either under PCE/IPCE can appear in the Final Examination during the last six months of the prescribed period of articled training.
- IPCC students will continue to appear in the Final examination during the last six months of the articled training on passing IPCE in its entirety.
- Students who switched over from Intermediate/ PE (Course – II)/ PCC were exempted from undergoing nine-month study course and 35-hour Orientation Programme, and also granted relaxation from undergoing 100-hour ITT either at the time of joining/ rejoining articled training. Those who have completed articled training period shall have to complete ITT before registration for Final course.
- PCC students are permitted to complete their 100-hour ITT before declaration of results.
- IPCC students have been granted relaxation from completion of 35-hour Orientation Programme and 100-hour ITT before commencement of articled training.
- Differently enabled students have been exempted from undergoing Orientation Programme completely.
- Intermediate/PE-II students have been allowed to switchover to IPCC.
- Revised guidelines for training of articled assistants outside India were issued.
- Procedure of valuation of answer books was revised whereby it has been ensured that consensus is arrived at on the model solution, prior to proceeding with valuation process.
- Structure of question papers was modified by giving choices in the question papers.
- Consultative Study has been initiated to evaluate effectiveness and efficacy of various activities of the Examination department.
- New centres were opened at Sirsa for Main examination and at Bhagalpur for CPT examination.

Publications
- *Study material* for CPT/IPCC/Final Courses was revised and released.
- *Practice Manuals* for the subjects in CPT/PCC/Final were released.
- Study Materials for papers on *Auditing & Assurance, Law, Ethics and Communications, Information Technology, Strategic Management and Taxation* for the members of ICAEW and CPA, Australia, were developed.
- *Question bank* of more than 500 questions in two CDs was developed for Online Examination.

International Initiatives: *Bettering Indian CA Brand*

MoUs/MRAs/Recognitions/Other Arrangements
- *MRA with CPA Ireland* was signed on the sidelines of the IFAC Board meeting in Paris in the presence of Mr. Robert Bunting, President, IFAC and CA. Ved Jain, Past President, ICAI and IFAC Board Member, to allow members of ICAI and CPA Ireland to recognise each other's qualification.
- *MoU with the Higher Colleges of Technology, UAE,* was signed in New Delhi to provide for conceptualising of our specialised module for UAE nationals by devising an international curriculum in Accountancy by integrating local needs and requirements of accountancy and audit professionals in UAE.
- *Joint Declaration with Association of International Accountants,* UK, was signed and exchanged in New Delhi to augment & strengthen bilateral co-operation between the two accounting institutes.
- Bilateral talks for signing MoU/MRA with *Canadian Institute of Chartered Accountants, Certified General Accountants, Canada, Institute of Chartered Accountants of New Zealand, and Institute of CPA, Singapore* are in an advanced stage.

Delegations/Meetings
- Delegation of Committee of European Securities Regulators (CESR), which works on IFRS-equivalence project and analyses the GAAPs of various countries, visited India to determine the status of convergence of Indian Accounting Standards with IFRS and a meeting was held between ICAI and CESR delegation along with representatives of RBI.
- Chairman and Deputy Director from IFAC's *International Ethics Standards Board for Accountants* wing visited ICAI to discuss revision of the *Code of Ethics* and rotation of Auditors.
- Interaction with *Trade officials of various Embassies in India* was organised in New Delhi to developing ways and means to foster and promote bilateral co-operation and to explore areas where ICAI can collaborate for positioning brand Indian CA globally.
- Representation was made at the *WTO Public Forum* under the title "The Forces Shaping World trade" held in Geneva.

Nominations/Recognitions/Others
- ICAI President CA. Amarjit Chopra was nominated in *Professional Accountancy Organisation Development Committee of International Federation of Accountants.*
- ICAI President CA. Amarjit Chopra was nominated as Member on Board and as Chairman of Small and Medium Practitioners Committee of *South Asian Federation of Accountants*. *Among other important*

nominations to SAFA, Central Council member CA. Vinod Jain was nominated as Chairman of its *Committee of Education, Training and CPT.*

- Technical Director of ICAI Dr Avinash Chander was appointed on the *Board of XBRL.*

Initiatives/Decisions

- Condition of pre-approval/endorsement of the Chairman of Australian and US Chapters for issue of good standing certificate has been removed. Instead, a self-declaration by members residing abroad in prescribed format will suffice the purpose.
- ISA Course for members of the Institute of Chartered Accountants of Sri Lanka was conducted as per the MoU.

IT Initiatives: *Walking with Time*

- *e-Sahaayataa,* an electronic service for members and students of the Institute to provide prompt services against their queries, complaints and grievances, was launched.
- *Live Virtual Classes* were launched to provide best education uniformly and consistently for overall development.
- *Website on IFRS*, i.e. Blended Learning Portal for IFRS, was launched.
- *ICAI website* was redesigned and refurbished.
- *Various FAQs and queries* received from members and CA Firms were compiled, and hosted on ICAI website.
- Suggested answers to *November 2010 Examinations* were hosted before declaration of results on ICAI website.
- Suggested answers to *DIRM Technical Examinations* held in May 2010 was prepared and hosted on ICAI website.
- *A search feature* was added in the networking portal for members practicing in Indirect Taxes, IDT Net to enable members to search the database of registrants.
- *Online facility for checking of availability of firm name* has been introduced on ICAI website.
- Online CPT *examinations* were held at 21 centers.
- BoS *Knowledge Portal* was launched to provide one-point stop for all academic inputs.
- *Online forms for ITT and feedback form for GMCS students* were hosted on ICAI website, and so far 867 and 149 responses were received and analysed respectively.
- Live web cast on *Direct Taxes Code Bill, 2010* was conducted.

Administrative/Infrastructure Initiatives: *Strengthening Building Blocks*

- Renovation work for Hardayal Municipal Library at Chandni Chowk was completed.
- It was decided to encourage staff of the Institute by allowing them to travel abroad and participate in various international forums including seminars and conferences, as a step of capacity building and empowerment.
- Appointment of *Auditors for audit of ITT Centres* at Regional Councils, Decentralised Offices and Branches was made.
- Appointment of *internal auditor* at Branches having more than 1000 members was made.
- Updation of *Accounting Manual* of Head Office, Regional Councils, Decentralised Offices and Branches was completed.
- Internal Control Manual was implemented to streamline and strengthen the *Internal Control mechanism* of the Institute.
- *Holi Milan* for the employees of ICAI was held.
- Programme for exchange of New Year greetings between employees and Council of ICAI was organised.
- Codification of *Fixed Assets* and updation of Fixed Assets register of the Institute was completed.
- Buildings of *Bhilai Branch, Sangrur Branch and Hubli Branch* were inaugurated and that of *Nellore Branch and Mathura Branch* are under construction.
- *Latur Branch* of WIRC and *Sri Ganganagar Branch* of CIRC were inaugurated.
- Pieces of land of 22,903 sq. feet and 2459.6 sq. meter area were allotted by Delhi Development Authority at Rohini in New Delhi and by Kanpur Development Authority at Lakhanpur in Kanpur respectively.
- Acquisition of land for the office of *Panipat Branch of ICAI* is in advanced stage.
- Construction work for the *Bandra-Kurla Complex* in Mumbai is in progress.
- Space for *student counselor, diary dispatch, sale counter and members lounge* have been created at Vishwas Nagar building of ICAI.
- *Standardisation of plot/built-up area of Branches* has been finalised and approved.
- *Construction of ICAI office* was commenced in a piece of land (23,700 sq. feet) at Rajdanga in Kolkata.

Publications: *Informing Stakeholders*

Standards

- Standards on Review Engagement (SRE) 2400 (Revised), *Engagements to Review Financial Statements* and Review Engagement (SRE) 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* were issued.
- Accounting Standards for Local Bodies (ASLB) 5, and 6, *Property, Plant and Equipment* and *Events after the Reporting Date,* were published.

Journal, *The Chartered Accountant*

- Total circulation of the Journal stands at more than 2,05,000 today.
- Issues on various themes including *Bank Branch Audit, Convergence with IFRS* and *XBRL* were brought out.
- New features including *Accounting Legend, International Taxation, Insurance, Outsourcing, Foreign Trade,* World Trade Organisation, Tracing the Roots, Global Perspective, CABF Donors, etc., were introduced.
- More than 163 articles on various topics were printed.
- July 2010 was a special issue to celebrate 'CA Day' as well as the foundation day of ICAI, which included interviews of Shri Vinod Rai, CA. K. Rehman Khan, Shri Salman Khurshid, special write-ups from regulators, top industrialists and bankers, international accounting leaders and select ICAI past-Presidents.
- Column 'Face 2 Face' (renamed as In-Conversation) was revived and interviews of inspiring personalities from Indian polity and industry including Shri Vinod Rai, CA. K. Rehman Khan, Shri Salman Khurshid, CA. Rameshwar Thakur, Shri Ashok Chawla, Shri Mukesh Ambani and Shri Nandan Nilekani were published.

- Latest hi-tech version *e-mag pro* of our e-Journal was launched.

Guides

- *Technical Guide on Audit of Non-Banking Finance Companies* was released by Shri Pranab Mukherjee, Union Finance Minister of India.
- *Audit of Non Banking Financial Companies and Practitioner's Guide to Audit of Small Entities* (including tiny entities) were released.
- *Implementation Guide to Reporting Standards (SA 700, SA 705 & SA 706)* was issued.
- *Technical Guide to CENVAT Credit* was released by Shri V. Sridhar, Chairman, CBEC, which includes an overview of CENVAT Credit Scheme.
- *Technical Guide on Internal Audit of Educational Institutions, Technical Guide on Internal Audit of Construction Industry (Revised), Technical Guide on Internal Audit of Sugar Industry, Technical Guide on Internal Audit* of BPO Industry, *Technical Guide on Social Audit, and Study on Co-ordination of Internal Auditor with Functional Heads* were released.

Others

- Books titled Practical Approach to *General Insurance Management—A Handbook for Insurance Professionals, Social Audit of Public Money—A Study to Formulate Social Audit Manual with Special Reference to NREGA, Excellence in Financial Re-porting: Illustrative Guide to Presentation and Disclosures, Drafting, Conveyancing, Registration and Stamping of Commercial and Other Documents, and Changing Times in Government Accounting—A Status Paper* were released by Shri Pranab Mukherjee, Union Finance Minister of India.
- Book titled *Issues in Public Finance* was released by Shri Salman Khurshid, Minister of Corporate Affairs.
- Booklet titled *Accounting Reforms in India: A Bird's Eye View* was released by Shri K. Rahman Khan, Deputy Chairman, Rajya Sabha.
- Useful compilation titled *Reference Material on Bank Branch Audit 2010* was published.
- 2010 edition of the *Handbook of Auditing Pronouncements,* including the text of all the clarified *Standards on Auditing, the Standards on Review Engagements* as well as *Glossary of Terms*, was published.
- Volume XXVII of the *Compendium of Opinions containing opinions* between February 2007 and January 2008, and between February 2008 and January 2009 were finalised.
- Revised *ISA Background Material* was released for ISA Professional Training.
- *A Beginner's Guide to the Capital Market,* primarily developed by the Ministry of Corporate Affairs, was translated and printed in Assamese and Punjabi, and was hosted on ICAI website.
- *Handbook for Investing & Investor Protection* has been developed. Plan to translate into all major languages is proposed to reach *aam aadmi.*
- Second updated edition of *Referencer on FEMA* was released.
- Updated edition of *Compendium of Standards on Internal Audit containing* text of all 17 Standards on Internal Audit was released.
- Book titled *A Study on Drafting, Conveyance, Stamping and Registration of Commercial and other Documents* was released.

ICAI Awards: *Recognising Distinguished Contributions*

- *ICAI Awards 2010* for excellence in service by chartered accountants in industry were given away to our members who created value for the company's stakeholders on sustainable basis, at a function held at Science City in Kolkata. The names were decided by a Jury of eminent industrialists and parliamentarians among others, which was headed by Shri Adi Godrej, Chairman, Godrej Industries Ltd.
- To recognise and encourage excellence in the presentation of financial information, *ICAI Awards for Excellence in Financial Reporting* were announced and the names were decided by a Jury headed by Padma Vibhushan Shri Naresh Chandra, Chairman, National Securities Advisory Board. In total, 17 awards including six Gold Shields, eight Silver Shields and three Plaques were distributed at a function held at Vigyan Bhawan in New Delhi. ■

Major Decisions of the Council of the ICAI (February 2010 to January 2011)

Continuing with its more than 61-year-old tradition as the guard and facilitator of professional excellence, integrity and service to the nation, the Council of the Institute of Chartered Accountants of India has remarkably led the ICAI and the accounting profession to achieve many a milestone in the year gone by. In that period, the Council has acted as a friend, philosopher and guide to the profession in addition to ably playing its role as a vigilant regulator of the accountancy profession in the Country. The Council met for 13 times during February 2010 and January 2011 and took a number of decisions with collective consensus for effective regulation and uplift of the profession and professional capabilities. Following are the gist of major decisions taken by the Council during this period, other than those relating to various standards, lists of which have been given earlier in this journal.

(1) High Powered Committee on Satyam Fiasco and its Report

The Council at its special meeting held on 13th March, 2010 deliberated in detail on the Draft Report (Part-II) of the High Powered Committee on Satyam Fiasco and constituted a Group of Council Members under Convenorship of CA. Subodh Kumar Agrawal to further modify the said Report. The Group submitted its revised report and the Council at its 295th meeting (3-5 May 2010) noted that the Group has bifurcated the Report into two – one dealing with "Satyam Fiasco" and another dealing with "Administrative Report on Operation of Multinational Accounting Firms in India and Regulation 190 of the Chartered Accountants Regulations, 1988".

The Second Volume of the ICAI's High-Powered Committee Report on the Satyam episode was later finalised and submitted to Ministry of Corporate Affairs. The Report made several suggestions including strict penal actions against auditors who are found to be colluding with management in serious accounting frauds. It was also suggested to frame a code of conduct for Financial Analysts and Investment Bankers for better scrutiny of firms that may indulge in malpractices.

The Council at its 298th (adjourned) meeting held on 7th October, 2010 considered the draft Administrative Report on Operation of Multinational Accounting Firms in India and Regulation 190 of the Chartered Accountants Regulations, 1988 and authorised the Convenor of the Group constituted by it, to finalise the same, in consultation with the President and the Vice President, in the light of the views expressed by the members of the Council.

(2) ICAI Recommendations of Amendments in the CA Act, 1949

The Council constituted a Group on Amendments in the Chartered Accountants Act, 1949, under the Convenorship of ICAI Vice-President CA. G. Ramaswamy at 294th meeting of the ICAI in March 2010, to suggest draft amendments in the Act, arising out of the Report of the High-Powered Committee to take disciplinary action against erring CA firms, only in grave circumstances and, also, in cases of repetition of gross negligence by their partners. The group gave its recommendations in June 2010 and resubmitted its revised recommendations to the Council in August 2010. The major purpose of making various amendments to the Act has been to make disciplinary process speedier and more time-bound, and to demonstrate to society for upholding the highest conduct of the professionals. Some of the amendments include the determination of prima-facie cases not to be handled by Director (Discipline) alone but rather by a Committee, action against CA firms, etc. Moreover, the action against the firm shall be covered by both Schedules to the Act involving not only financial penalty but also suspension thereof. However, the action against the firm is proposed to be taken by the Council only. The proposed amendments have since been submitted to the Government. "If amendments are approved, it will help us act against the erring firms, although in absolute exceptional circumstances," the ICAI President wrote in his message in December 2010 issue of this journal.

(3) Approval of Indian Accounting Standards Converged with IFRS

As part of Institute's commitment for convergence with IFRS, during this Council year, till date 34 Indian Accounting Standards corresponding to the respective International Accounting Standards (IAS)/ International Financial Reporting Standards (IFRS) have been cleared by the Council. Two Indian Accounting Standards, viz., IND AS 20 corresponding to IAS 20, *Accounting* *for Government Grants and Disclosure of Government Assistance* and IND AS 23 corresponding to IAS 23, Borrowing Costs were cleared during the last Council year. At present, in all, there are 38 IAS/IFRS out of which IFRS 9, *Financial Instruments* is not required to be notified at present whereas IAS 41, *Agriculture*, has to be redrafted and, therefore, will be notified later. Thus, as of now, all IND ASs to be notified have been cleared by the Council.(A list of standards issued has been published separately under 'Major Achievements' feature in this journal).

(4) Calling for Financial Information from All Firms

The Council approved the decision of the Professional Development Committee to call for financial/Income tax details/documents from all the applicants of Multipurpose Panel for the year 2011-12 and further decided that the percentage to be called for from the next year onwards may be reviewed based on the checking of the financial/IT details/documents to be received next year. *(299th meeting, October, 2010)*

(5) Hosting of Names of Guilty Members

It was decided to host on ICAI website the details of persons who had been found guilty of professional misconduct specified in the First Schedule read with Sections 21 & 22 of the Chartered Accountants Act, 1949 (pre-amended) and whose names as members have been removed from the Register of members of ICAI for certain period in accordance with the decision of the Council of the ICAI taken under sub – section [4] of Section 21 of the Chartered Accountants Act, 1949.

It was also decided to host list of cases where (I) members of the Institute had been found guilty by the Council of the Institute under Section 21 read with Section 22 of the Chartered Accountants Act, 1949 (pre-amended) and the same had also been confirmed by the High Courts concerned and (II) members who had been found guilty and accordingly references made to the High Courts concerned for confirmation but the same are yet to be confirmed by the Courts.

(6) Group to Prevent Frauds and Misuse of Stamp of CA: The Council took note of the issue raised with regard to forgery of signature and misuse of Rubber Stamp of Chartered Accountants in the General Purpose Financial Statements, Tax Audit Reports and other statutory and non statutory documents, which was adversely affecting the credibility with the Banks. The Council noted that forgery of signatures on Form No. 16A had resulted into fraud with the IT Department in crores of rupees. The Council also took note of a suggestion for plugging this loophole by introducing a system of Unique Document Identification No. (UDIN). Upon consideration, the Council constituted a Group of Council Members under convenorship of CA. Atul C. Bheda to consider the issue and give its suggestions to the Council. (The report so submitted was considered by the Council and decision taken. The decision will be operationalised effective 1st February 2011. It is planned to introduce a unique code number to check the increasing instances of fraudulent practices including forged attestations, as part of ongoing Project Parivartan initiated to change our operational processes to meet global benchmarks. ICAI is being assisted by the software giant Infosys in this endeavour.) *(294th meeting, 25-27 March 2010)*

(7) Requesting C&AG to Implement New Norms Effective Next Year

It was decided to make a representation to the office of C&AG requesting to defer the implementation of new policy of empanelment of CA firms and selection of auditors for PSUs for next year so that there is sufficient notice about the same to all concerned. (Subsequently, a representation was made to the office of C&AG, which responded positively and has assured to look into the request considerately). *(302nd meeting, 16-17 January 2011)*

(8) Green Initiative: Accepting a suggestion for saving the environment by limiting the use of papers, the Council decided that in future, if any member instructs the office only to send soft copy of the agenda or minutes etc., the hard copy of the agenda, minutes, etc. be not sent to such member. *(294th meeting, 25-27 March, 2010)*

(9) Social Security of Members: Considering the issue of social security to the members by extending the benefits of Benevolent Fund, the Council decided that the members of the Council generously contributing to the above Fund themselves may also use their good offices to encourage other members to contribute to the CABF with a view to raising the corpus of the said Fund which resultantly would help extending financial assistance at an enhanced scale to the members in distress or their families. *(295th meeting, 3-5 May 2010)*

(10) Alternative dispute resolution mechanism for members: Keeping in view the need for speedier and amicable resolution of disputes within CA fraternity, the Council agreed for development of alternative dispute resolution mechanism (i.e. Arbitrator) for dealing with disputes of Member vis-à-vis Member and Member vis-à-vis Student and decided on various aspects of the issue. The detailed decisions of the Council in this regard have been published on Page 842 of December 2010 issue of the journal for reference. *(300th meeting, 24-26 November 2010)*

(11) Initiative for Members Completing CPE Hours Requirement: The Council decided that a list of members who have completed the prescribed requirement of CPE hours for the block of 3 years (2008-10) be hosted on the website of the Institute. *(301st meeting, 22-24 December 2010)*

(12) Decision on EMD/Deposit: The Council considered the recommendations of the Ethical Standards Board on the payment of earnest or deposit money by various users of professional services or organisations while responding to tenders/enquiries issued from time to time and recommended a cost-sheet to be maintained by the members of Institute while responding to tenders, incorporating details of the costs being incurred therein having regard to number of persons involved, hours to be spent, etc., which may be called for by the Council for perusal. So, the same may also be subject to the peer review. The decision is with regard to any assignment being on tendered basis. *(301st meeting, 22-24 December 2010)*

(13) New Peer Review Statement and Doing Away with Chinese Wall After Three Years

The Council has decided to revise the Statement on Peer Review as recommended by the Peer Review Board. As per the revised statement the Chinese Wall between Peer Review and Disciplinary mechanism may be done away with after a period of three years after following the procedure laid down by the Council. Thereby in the case of issuance of qualified report for the firms the Board may forward the specific cases to the Council and the Council may decide to forward the cases to the Director Discipline of ICAI if it is of the opinion that the non-compliance is material. This would be initiated if deficiencies are not rectified subsequently even after the second follow on review is over. *(302nd meeting, 16-17 January 2011)*

(14) ICAI's Preparedness for Disciplines on Domestic Regulations in the Accountancy Services (WTO Document): The Council approved the report of the Group Constituted to examine the ICAI's preparedness for Disciplines on domestic regulations in the Accountancy services (WTO Document No. S/L/64/ dated 17th December, 1998) sector as adopted at the WTO. The ICAI's response to the Ministry of Commerce after consultation with Ministry of Corporate Affairs has since been sent and it includes the Document on Possible liberalisation, India's Revised offer of August 2005 & Country wise - comparative Analysis of the various limitation in the Sectoral/Horizontal Commitments. *(297th meeting, 4-6 Aug 2010, 18th Aug 2010)*

(15) Branches and Branch Managing Committee Elections: The Council took a number of decisions on the recommendations of Executive Committee regarding Branches and Branch Managing Committee elections, including that 'voting through single transferable system which is compulsorily followed for election to the Council and the Regional Councils be made mandatory for elections at Branch level including election of office bearers and that a direction be issued to the branches under regulation 159 to this effect.' A member of the Managing Committee of a Branch who has held the office of Chairman of that branch shall not be eligible for contesting the next immediately following triennial election for the members of Managing Committee. However, after giving the break of one term of three years, he can contest the election of Managing Committee of Branch. *(294th meeting 25-27 March 2010 and 300th meeting, 24-26 November 2010)*

(16) Revision of Advisory for Publication of Newsletters by Regional Councils and Their Branches: The Council amended the Advisory on the Newsletter published by the Regional Council and their Branches after accepting various recommendations of Executive Committee regarding maximum number of pages allowed, maximum number of pages for photographs, publisher of the newsletters, front cover and colour scheme, etc. The Council decided that cases of non-compliances of Advisory be considered by the Executive Committee and the Executive Committee may impose the penalty of not publishing the newsletter of Regional Council and Branch concerned for a period of six months to one year. *(295th meeting, May 13, 2010)*

(17) Mandatory Inclusion of the Firm Number of the CA Firm for All Attestation Functions: The Council agreed to the suggestion of the AASB and made it mandatory for all the members, signing any assurance report in the capacity of a proprietor or partner of a proprietorship or partnership Chartered Accountants' Firms, respectively, to mention the firm registration number, as allotted by the ICAI, on such assurance reports. The Council also decided that this requirement would come into force with effect from October 1, 2010. *(296th meeting, 29th June-1st July 2010)*

(18) Dialogue with Govt for Conduct of Internal Audit Only by Members/CA Firms: It was decided to write to the Government/Regulatory authorities like RBI and SEBI to the effect that wherever internal audit was required to be carried out, the same be carried out only by Chartered Accountants or firms of Chartered Accountants highlighting the possible risks involved in internal audits carried out by persons/firms/companies other than by the members of the institute/firms of chartered accountants as the non-members were not subject to any disciplinary mechanism. *(295th meeting, 3-5 May 2010)*

(19) Assurance engagements at Service Organisations: To help ICAI members carry out assurance engagements at Service Organisations, the Council cleared the Standard on Auditing (SAE) 3402, Assurance Reports on Controls at Service Organisation, and Standard on Auditing (SAE) 3402, Assurance Reports on Controls at Service Organisation, formulated by the Auditing and Assurance Standards Board. *(300th meeting, 24-26 November 2010)*

(20) Provisions for Physically Challenged CAs: A Group of Council members under convenorship of CA. Vinod Jain was constituted to consider and prepare a draft paper on the various concessions that one can have for physically challenged Chartered Accountants vis-à-vis the openings available in PSUs or in the private sector. *(September 2010)*

(21) CPE in e-Learning Mode: The Council decided that an online e-learning module would be developed and implemented by ICAI for the all the members shortly. Under the cited e-learning module, the members would be required to answer on-line such number of questions as may be decided by the Council. On successful completion of the prescribed e-learning module, credit of 3 CPE hours would be granted to the members under structured learning instead of the present category of Unstructured learning. *(301st meeting, 22-24 December 2010)*

(22) Revival of Derecognised Study Circles: Regarding the formulation of guidelines for revival of derecognised Study Circles, the Council decided that a Study Circle which was earlier derecognised by the Council may be revived by the Continuing Professional Education Committee subject to the compliance with certain norms to be specified in this regard. *(300th meeting, 24-26 November 2010)*

(23) Enhancing Qualities and Abilities of Members: With a view to enhancing qualities of members, the Council decided that where there has been a gap of 5 or more years between the removal of name and application for restoration of name, if the member applies for Certificate of Practice, he should undergo a specified refresher course of a duration of 30 hours in the modules to be developed by Board of Studies, either in physical form during weekends or in the online format. Alternatively, such members could attend CPE programmes and earn 30 CPE hours before the Certificate of Practice is restored/granted. The Council also decided that for the persons who have passed the Final Examination and become eligible for enrolment as a member but have not applied for membership within 5 years from the date of their becoming eligible should undergo the aforesaid refresher course for getting enrolled as a member. The same is subject to the changes in the regulations. *(300th meeting, 24-26 November 2010)*

(24) Special Window on ICAI Website for EAC Opinions/ICAI Publications: The Council approved the Executive Committee decision to the effect that a Special Window, a designated URL (icon) be created/hosted on the home page of the Institute's website to enable members/firms of Chartered Accountants view the opinions issued by the Expert Advisory Committee or any other publication(s) of the Institute. The Council decided that in supersession of its decision taken at its 292nd meeting held in January/February, 2010, all publications of the Institute be hosted on the Institute's website with facilities for downloading and the same be linked with the aforesaid designated URL. It was also clarified that no fee be charged from members/firms visiting the said URL. Further, the Council also noted that no permission be granted to anyone for hosting the opinions or any other publications issued by the Institute directly on their websites. *(297th meeting, 4-6 August 2010)*

(25) MoU with United Stock Exchange of India Limited: The Council noted and approved Memorandum of Understanding entered into between The Institute of Chartered Accountants of India and United Stock Exchange of India Limited, Mumbai. In order to impart comprehensive knowledge of financial markets to members of the Institute of Chartered Accountants of India and to create general awareness a Memorandum of Understanding (MoU) has been entered between the Institute and the United Stock Exchange of India Limited (USE), Mumbai, wherein it has been agreed to collaborate on the pursuit of following activities through the Exchange of necessary information, technology, consultation and co-operation. *(297th meeting, 4-6 Aug 2010)*

(26) Constitution of `XBRL India': The Council approved the draft Memorandum of Association and Articles of Association for the constitution of "XBRL India" by ICAI to undertake the development and promotion of XBRL (Extensible Business Reporting Language) in India. Further, the Council authorised the President-in Office to take necessary steps in terms of the Memorandum of Association and Articles of Association for formation of the Section 25 Company. (297th meeting, 4-6 August 2010)

(27) Playing Leading Role in SAFA: The Council noted that the ICAI is one of the founder members of SAFA and Secretary ICAI is also Permanent Secretary of SAFA. The Council was of the view that instead of withdrawing from membership of SAFA, the ICAI should take lead role in the activities of SAFA and should play a mentorship role in the SAARC Region and therefore, the Council decided to continue as a member of SAFA. It was also decided that Permanent Secretariat of SAFA should continue to remain with the ICAI. *(294th meeting, 25-27 March 2010)*

(28) ICAI Chapter in Ras al-Khaimah, UAE: The Council approved the recommendation of the Executive Committee to set up a Chapter at Ras-al-Khaimah, United Arab Emirates. *(294th meeting, 25-27 March 2010)*

(29) MoU with the Higher Colleges of Technology, UAE: It was decided to enter into a Memorandum of Understanding with Higher Colleges of Technology, the largest higher educational institution in UAE. The MoU interalia would provide for conceptualising of a Specialised Module by ICAI for UAE Nationals by devising an International curriculum in Accountancy by integrating local needs keeping in mind various requirements of different level of Accountancy and audit professionals in UAE. (The MoU was signed on January 04, 2011 in New Delhi). *(295th meeting, May 3-5, 2010)*

(30) Change of Name of Foreign Chapters of ICAI: The Council concurred to the International Affairs Committee recommendations that there are cases that in a country there are more than one Chapter, and if, one becomes National Chapter, the authority of other Chapters in the same country gets relegated. The Council decided that to overcome this problem and to restore the equitable positions to different foreign Chapters, the name of existing city chapter may be changed with Country name followed by city chapter of ICAI like Australia (Sydney) Chapter of ICAI, which will give opportunity to other city chapters within the country to be placed at the same footing as that of other Chapters in that Country. The Council further decided that the same would not apply to chapters like Singapore, where the name of city & country are same. *(295th meeting, 3-5th May, 2010 and adjourned to 13th May, 2010)*

(31) Guidelines for Training of Articled Assistants Outside India: The Institute, while considering the difficulties being faced by overseas members in providing training to articled assistants has issued the revised guidelines and FAQs for training of articled assistants outside India. The same has been hosted on the Institute's website.

(32) Resolving Difficulties Being Faced by the Members and Articled Assistants Regarding Transfer of Articles: The Council revisited its decision taken at its 288th meeting (June/July, 2009) on transfer of articles in view of difficulties being faced by the members and articled assistants. The Council while accepting the recommendations of the Executive Committee on termination of articles in view of difficulties being faced by the members and articled assistants decided that the transfer/termination of articles be permitted without any restriction during the first year of articleship and that the transfer of parents of articled assistants be also added as an exceptional /justifiable circumstance for transfer / termination of articles in the subsequent year(s). The Council further decided that in cases where dispute arises between an articled assistant and the Principal an advisory be issued that the Institute shall not interfere in the dispute of articled assistants and Principals and that they shall settle the matter amicably among themselves. *(296th meeting, 29 June-1st July 2010)*

(33) Doubling of Stipend to Articled Assistants: The Council on consideration of the matter in the light of the prevailing inflation rate has decided to recommend to the Central Government to double the existing rates of stipend. The revised rates of stipend are mentioned below:-

Classification of the normal place of service of the articled assistant (1)	*During the first year of training (2)*	*During the second year of training (3)*	*During the remaining period of training (4)*
(i) Cities/towns having a population of twenty lakhs and above.	₹2000/-	₹2500/-	₹3000/-
(ii) Cities/towns having a population of four lakhs and above but less than twenty lakhs.	₹1500/-	₹2000/-	₹2500/-
(iii) Cities/towns having a population of less than four lakhs.	₹1000/-	₹1500/-	₹2000/-

(297th meeting, 4-6 August 2010)

(34) Exemption from Payment of Fees and Other Concessions to Handicapped/Physically Disabled Students for Orientation Programme: The Council decided that all students suffering from permanent disability of 50% or above and fulfilling the prescribed guidelines would be exempted from payment of fees for undergoing the Orientation Programme. They shall neither be required to attend the course nor pass the special test of three hours. The Council also decided that in the guidelines, a residuary clause, covering any other physical disability, duly certified by a Doctor of a Government hospital should be added. *(297th meeting, 4-6 Aug 2010 and 18th Aug 2010)*

(35) Simplification of Eligibility Requirement for Final Examination and Training Period for Various Streams i.e. PE-II / PCC/ IPCC: The Council decided that PCC students be permitted to appear in the Final examination during the last 6 months of their articled training period. The PCC stream students can opt to

IPCC stream at any stage. However, PE-II students shifting to PCC / IPCC may be allowed to take the Final examination during the last 12 months of their articled training. In respect of students who have passed PE-II, they will continue to undergo 3 years articled training and will be eligible to appear in the Final Examination during the last 12 months of their articled training period. There is no change in respect of students passing IPCC stream as in their case, training will continue to be 3 years and Final examination can be taken during the last 6 months of their articled training.

The Council also decided that PCC students be permitted to shift to IPCC stream at any stage. However, the period of articled training to be served by such students shall be 3½ years and they shall be eligible to appear in the Final Examination during the last 6 months of their articled training period. Similarly, PE II students who have not been able to qualify the examination be also permitted to shift to IPCC stream at any stage. The period of articled training to be served by such students shall be 3 years and they shall be eligible to take Final Examination during last 12 months of their articled training period.

As a special case, the Council decided to allow PE-II stream students to appear in Final examination within last 12 months, even after shifting to new scheme i.e. PCC or IPCC, to facilitate closure of this stream by May 31, 2010. The Council also noted in this regard that the PE-II scheme has since been discontinued with the holding of the last PE-II examination in May, 2010. *(295th meeting, 3-5 May 2010 & 13th May 2010)*

(36) Common Proficiency Test: The Council reviewed the requirement for passing the Common Proficiency Test and decided that a candidate shall have to obtain at one sitting, a minimum of 30 per cent marks (out of maximum marks specified by the Council for each Section) and a minimum of 50 per cent marks in the aggregate of all the Sections, subject to the principle of negative marking, in a manner as may be specified by the Council from time to time subject to proposed amendments in the regulations approved by the Central Government. *(300th meeting, 24-26 November 2010)*

(37) Removal of Difficulties Faced by Students in Successfully Completing (a) ITT Course and (b) Orientation Course Before Commencement of Nov 2010 PCC/IPCC Examinations: The Council, with a view to mitigate difficulties of the students, decided that students registered for PE-II course and PCC converting to IPCC should be exempted from pursuing the Orientation Programme. Further, students of certain streams be allowed to complete 100 hours ITT before enrolling for articles. Accordingly, the Council resolved to pass the related Resolution under Regulation 205 of the Chartered Accountants Regulations, 1988. *(297th meeting 4-6 August 2010)*

(38) Registration Fee for Switching from PE-II Course to IPCC: The Council decided that PE-II students who switch over to IPCC be charged a sum of Rs. 1500/- as tuition fee to cover the cost of study material and administrative charges, instead of Rs. 4000/- at present. Those PE-II students who, at the time of switching over to IPCC would be required to undergo under ITT training, unless exempted otherwise shall pay Rs.2000/- as registration fee for 100 hours ITT training. Such students shall be exempted from undergoing orientation programme and hence shall not be required to pay any registration fee for the same. Further, the Council also decided that the announcement already made to this effect, be made applicable to students switching over from PE –II to IPCC w.e.f. July 29, 2010. Further, it was decided that PE-II students who have passed one of the groups in PE-II examination be allowed to commence their articled training on completion of 100 Hours ITT, if not completed 250 hours CCT. *(297th meeting, 4-6 August 2010)*

(39) Change in Nomenclature of PE-II/PCC/IPCC Examinations: The Council considered the recommendation of the Board of Studies that the nomenclature of the PE-II/PCC/IPCC examinations may be changed to Intermediate examination as was prevalent before the coining of different names, as this would clear any doubts in the minds of prospective employers providing employment to members of the Institute and also in the minds of general public. The Council decided to change the nomenclature of PE-II/PCC/IPCC examinations to Intermediate examination. However, till such time the PE-II and PCC examinations were in force, PE-II/PCC/IPCC examinations shall be named as 'Intermediate (PE-II)', 'Intermediate (PCC)', 'Intermediate (IPCC)'. Once the PE-II and PCC Courses/ examinations were discontinued, the IPCC examination shall be known as Intermediate examination. This is subject to change in regulations. *(295th meeting, May 13, 2010)*

(40) Setting up of a Branch of SICASA at Nellore: The Council accepted the recommendation of Executive Committee and decided to form Southern India Chartered Accountants Students' Association (SICASA Branch at Nellore. *(294th meeting. 25-27 March 2010)*

(41) Decision to Set up Students Association Branches at all Places where Branches exist and setting up of a Branch of CICASA at Udupi and Branches of CICASA at Agra, Beawar, Bhilai, Gwalior and Noida.

The Council, with a view to provide more platforms for increased interactions to students inter se or otherwise, decided to set up Students Association branches at all places where ICAI branches exist and approved recommendation of the Executive Committee for constitution of a branch of SICASA at Udupi and of Branches of CICASA at Agra, Beawar, Bhilai, Gwalior and Noida. *(299th meeting, October 2010)*

(42) Formation of a Branch of WIRC at Latur in Maharashtra: The Council accepted the recommendation of the Executive Committee for formation of a Branch of WIRC at Latur in Maharashtra. *(296th meeting, 29 June -1st July 2010)*

(43) Sale of New Building at Agra and Purchase of New Land for Agra Branch Building

The Council considered Executive Committee recommendation for Sale of new building at village Akbara, Artoni, Agra and purchase of new land for Agra branch building and decided to form a Group of Council Members consisting CA. S. B. Zaware, CA. P. Rajendra Kumar and all the members from Central Region to review the matter. *(300th meeting, November 25, 2011)*

(44) Standardisation of Plot/uilt Up Area of Buildings for Branches of the Institute and Centres of Excellence: Standardisation of plot/built up area of the branches has been finalised and approved by the Infrastructure Acceleration Group. The standardisation has been done based on the strength of members of different branches and with respect to Built up/ covered area of building, Land area for branch building, materials to be used in construction of branch building and submission of building proposals. Standardisation has also been done of plot/built up area of buildings for Centre of Excellence of Institute. *(295th meeting, 3-5 May 2010)*

New Minister of Corporate Affairs Shri Murli Deora

A visionary and veteran leader in Indian polity, Shri Murli Deora has taken over as the new Minister of Corporate Affairs on 20th January 2011. This is for the first time that Ministry of Corporate Affairs has got a Minister of Cabinet rank as its mentor. He is known to be a seasoned industrialist, a proactive social worker and a soft but determined leader with a difference. The Institute of Chartered Accountants of India congratulates him and hopes to get constant support and guidance from him to enhance its role as Partner in Nation Building. Following is the brief profile of the new Minister of Corporate Affairs.

A seasoned industrialist and social worker-turned-politician and a veteran leader of Indian National Congress, Shri Murli Deora was born in Mumbai on 10th January 1937 to Shri Sitaram Deora and Shrimati Giaibai Deora, who belonged to Laxamgarh (Rajasthan). He did his BA from Mumbai University. Married on 11th December 1970 to Ms. Hema Deora, Shri Deora is a father of two sons, one of whom, Shri Milind Deora, is a Lok Sabha member from Mumbai South constituency.

A visionary and soft but determined leader, Shri Murli Deora began his political innings from the Bombay Municipal Corporation way back in 1968 when he was elected corporator. Later, in 1977, he was elected as Mayor of Mumbai. He was president of the Mumbai Regional Congress Committee for 22 years from 1981 to 2003. During 1982-85, he served as Member, Maharashtra Legislative Council, Director, Life Insurance Corporation and Chairman, Maharashtra Small Scale Industrial Development Corporation.

Known for his networking skills and social work, he first got elected from Mumbai South constituency with a huge margin to enter eighth Lok Sabha in 1984. He was re-elected to ninth Lok Sabha in 1989 and tenth Lok Sabha in 1991. During 1995-96, he was International President, Parliamentarians for Global Action, New York and during 1998-99 he became member of Twelfth Lok Sabha and served as Chairman, Standing Committee on Finance. Between 1998-99 and October 2004—January 2006 he was also member, Consultative Committee for the Ministry of Finance.

He was elected to the Rajya Sabha in April 2002 and between 2002 and 2004 he served as Chairman, Parliamentarians for Global Action, India. He was inducted in the Union cabinet as petroleum minister in January 2006. He was re-elected to Rajya Sabha in April 2008. In the Congress re election in 2009, Deora retained the portfolio of Petroleum and Natural Gas in the second government under Prime Minister Shri Manmohan Singh. In January 2011, Shri Deora was made Union Minister of Corporate Affairs.

A keen bridge player, Shri Murli Deora has been closely associated with the Bhartiya Vidya Bhavan and the Indian Red Cross Society. During 2004-05, he served as Vice-President, International Federation of Red Cross and Red Crescent Societies, Geneva and from 2005 onwards he was a member, Foundation of International Federation of Red Cross and Red Crescent Societies. He has also been involved in social work for the last several years and has organised a large number of eye camps. As Vice-Chairman, Gandhi Institute of Computer Education & Information Technology of Bharatiya Vidya Bhavan, he started free computer training to poor and under privileged youth in over 30 cities in India. As Vice-Chairman of the Indian Red Cross Society, he has helped and mobilised relief work during natural/man made calamities on a number of occasions. ■

Conferences/Convocations/Meetings

National Conference - Guwahati

H. E. Shri Devanand Konwar, Hon'ble Governor of Bihar inaugurating the National Conference along with CA. Amarjit Chopra, President, ICAI and CA. G. Ramaswamy, Vice-President, ICAI, in the presence of CA. Abhijit Bandyopadhyay, Central Council Member and other dignitaries.(December 17 & 18, 2010)

National Conference - Jaipur

H. E. Shri Shivraj Patil, Hon'ble Governor of Rajasthan inaugurating the National Conference on *CA Profession- Challenges and Opportunities* along with CA. G. Ramaswamy,Vice-President, ICAI, CA. Vijay Garg, Central Council Member and other dignitaries. (December 30, 2010)

Meeting with Hon'ble Minister Shri Kapil Sibal

CA. Amarjit Chopra, President, ICAI & CA. G. Ramaswamy, Vice-President, ICAI meets Shri Kapil Sibal, Hon'ble Union Minister of Human Resource Development, Science and Technology, Earth Science & Communications and Information Technology. (January 13, 2011)

Chennai Convocation

President, ICAI, CA. Amarjit Chopra & Vice-President, ICAI, CA. G. Ramaswamy along with Thiru Ma. Subramanian, Hon'ble Mayor of Chennai, CA. V. Murli, Central Council Member and CA. Babu Abraham Kallivayalil, Chairman, SIRC with the newly qualified Chartered Accountants during Chennai Convocation. (January 9, 2011)

National Conference - Ghaziabad

CA. Amarjit Chopra, President, ICAI along with CA. Anuj Goyal, Central Council Member, CA. (Dr.) Girish Ahuja, CA. Kemisha Soni, Chairperson, CIRC and CA. Sanjay K. Garg, Secretary, Ghaziabad Branch, at National Conference on *Rising to the Challenges in Public Finance & Government Accounting*. (December 25 & 26, 2010)

CPE Seminar - Raipur

CA. Amarjit Chopra,President, ICAI addressing CPE Seminar on *TDS & Future of Profession* in the presence of CA. G. Ramaswamy,Vice-President, ICAI, Central Council Members CA. Manoj Fadnis & CA. Anuj Goyal, CIRC Chairperson CA. Kemisha Soni and other dignitaries on the dias. (December 27, 2010)

Internal Audit Seminar- Vasai

CA. Amarjit Chopra, President, ICAI along with CA. Rajkumar S. Adukia & CA. Sanjeev Maheswari, Central Council Members and other dignitaries at the Internal Audit Seminar. (January 7, 2011)

International Conference for CA Students - New Delhi

CA. Amarjit Chopra, President, ICAI along with Prof. Dinesh Singh, Vice Chancellor, Delhi University, CA. Vinod Jain, Central Council Member, CA. Atul Gupta, Chairman, NIRC and other dignitaries during inauguration of International Conference for CA Students. (December 28 & 29, 2010)

National Conference for CA Students - Indore

CA. Amarjit Chopra, President, ICAI, addressing the gathering during National Conference for CA Students in the presence of Central Council Members CA. Vinod Jain & CA. Manoj Fadnis, Chairperson CIRC CA. Kemisha Soni and other dignitaries. (December 18 & 19, 2010)

All Odisha CA Students Conference - Bhubaneswar

President, ICAI CA. Amarjit Chopra accepting a cheque of ₹5,18,220/- from CA. Pranab Kumar Das Pattnaik, Chairman, Bhubaneswar Branch towards CABF during All Odisha CA Students Conference while Central Council Members CA. Charanjot Singh Nanda and CA. Vinod Jain show their appreciation. (December 22 & 23, 2010)

Branch Visits

Inaugural Ceremony of Latur Branch

CA. Amarjit Chopra, President, ICAI, presenting a memento to Shri Vilasrao Deshmukh, Hon'ble Union Minister for Heavy Industries and Public Enterprises during Inaugural Ceremony of Latur Branch of ICAI. (January 02, 2011)

Inauguration of Sri Ganganagar Branch

CA. Amarjit Chopra, President, ICAI inaugurating Sri Ganganagar Branch along with CA. Anuj Goyal, Central Council Member, CA. Kemisha Soni, Chairperson, CIRC and other dignitaries. (December 31, 2010)

Inaugural Ceremony of NIRC's office

CA. Amarjit Chopra, President, ICAI ingurating the newly allotted office of the NIRC at 4th Floor, Annexe Building, ICAI Bhawan, New Delhi in the presence of CA. G. Ramaswamy, Vice-President, ICAI, CA. Atul Gupta, Chairman, NIRC and other dignitaries. (January 16, 2011)

Inauguration of Bhilai Branch Building

CA. Amarjit Chopra, President, ICAI addressing the gathering during inaugural ceremony of the Bhilai Branch Building in the presence of CA. G. Ramaswamy, Vice-President, ICAI, Central Council Members CA. Manoj Fadnis & CA. Vijay Garg, CA. Kemisha Soni, Chairperson, CIRC and other dignitaries on the dais. (December 27, 2010)

Inauguration of Sangrur Branch Building

CA. Amarjit Chopra, President, ICAI addressing the gathering during Inaugural Ceremony of the Sangrur Branch Building. Also on the dias are Shri B. S. Dhillon, IRS, Chief Commissioner of Income-tax (NWR), CA. Sanjay Agrawal, Central Council Member, CA. (Dr.) Girish Ahuja and other dignitaries. (January 15, 2011)

President, ICAI at Dehradun

CA. Amarjit Chopra, President, ICAI, with the office bearers and other members of Dehradun Branch at Dehradun during his visit. (December 25, 2010)

President, ICAI at Roorkee

President, ICAI CA. Amarjit Chopra with the office bearers of the Roorkee Branch during his visit. (December 25, 2010)

President, ICAI at Saharanpur

CA. Amarjit Chopra, President, ICAI, with the office bearers of the Saharanpur Branch during his visit. (December 25, 2010)

ICAI Should Help Indian Railways: Samar Jha

Shri Samar Jha, Financial Commissioner (Railways), addressed the 302nd meeting of the Council held on 17th January, 2011 in New Delhi and shared his experiences and vision with the Council members. He gave a bird's eye view of the importance of Indian Railways, its unique features, its major projects in the pipeline and how chartered accountants can be utilised in better and proficient service delivery by the Railways. The Council requested him to explore the role of chartered accountants in preparation and maintenance of fixed assets register, stores and spares, catering and allied services, in addition to financial reforms Following are the extracts taken from the address of Shri Samar Jha:

"Challenges faced by railways in accounting are innumerable. Here, earnings are received in small amount and number of transactions is too large. The earnings through reserved tickets are easy to account for as the whole PRS is computerised. However, some revenue streams like unreserved ticketing system, tickets issued by TTEs; parcel and freight are not fully computerised.

Railway's organisational structure is based on zones therefore, the allocation of earnings & expenses (to calculate profit zone wise) is also a concern area. In case of freight, the loading and unloading terminals have to be given extra share. Some provisions like workshop for overhauling are not available at the zonal level. Therefore, such costs are incurred at Central level and transferred regularly.

Railways maintain accounts like any other commercial enterprise while it is expected to follow government policies as far as decision making is concerned. Here, projects are identified and then, capital budget is built which is contradictory to the prudent financial management. However, this has got in its own logic as railways is not only a commercial enterprise, but has over the years served to achieve various socio economic goals. It has helped in pushing up economies of various backward regions. It is evident that areas infested by naxalites are those which are least connected by railways in terms of route km. per sq. km. Because of this only the Central Government has initiated a project to connect capital cities of North Eastern India. That's the reason the Kashmir line should have come up long back.

Creation of high speed railway authority is also on the anvil with several busy routes having been identified for the purpose. Being the biggest producer of fruits and vegetables of the world; if we can build up the requisite inventory of cold chain containers it can turn out to be the one of the profitable ventures of railways. The concept of dedicated freight corridor is also being taken up which will lead to creation of several city hubs across its length.

In December, 2009, Railways had come out with a White Paper indicating its organisational, operational and financial status based on its performance in the last five years. The role of CAs in vetting the financial data included in the White Paper needs to be appreciated.

Railways initiated accounting reforms in the year 2006 when it planned to raise funds for its infrastructure requirement. For the purpose, consultants were appointed to prepare a report as to how to initiate and implement accrual accounting. The said report was being studied further.

In full implementation of accrual accounting in the Railways, the preparation of asset register would be a major area of concern and a lot of efforts would go into creation of an authentic gross block. Also, they will be required to prepare financial statements both on cash basis and accrual basis. There is a strong need of hand-holding exercise with IRAS offices in this regard and The Institute of Chartered Accountants of India should help in training officers of Indian Railways.

Personnel manning accounts of railways are either direct recruits in accounts services or are from Indian Railways Accounts Service. He requested ICAI to explore whether it is possible to give some kind of guidance to them so that they may appear for CA Examination after a period of time." ■

ICAI International Conference Highlights Role of Accountancy Profession in Sustained Economic Growth

The Institute of Chartered Accountants of India (ICAI) organised a very well-attended three-day International Conference *on Accountancy Profession: Catalyst to Sustained Economic Growth* on January 4-6, 2011 at Vigyan Bhawan in New Delhi to bring the Indian and global perspectives together on issues of contemporary relevance to accountancy profession, and to deliberate on issues related to governance, financial engineering, regulatory compliance, creation of stakeholder values, corporate social responsibility, etc. The conference was inaugurated by Union Finance Minister Shri Pranab Mukherjee. Rajya Sabha Deputy Chairman CA. K Rahman Khan and the then Minister of Corporate Affairs Shri Salman Khurshid were the guests of honour at the inaugural session. C&AG of India Shri Vinod Rai and IFAC CEO Mr. Ian Ball were among a host of leading speakers at the conference, which was attended by 1100 delegates from across the world. The Conference proved to be an apt opportunity for accountancy and related professionals and gave them opportunity to update themselves on emerging paradigms in the context of international economic developments and changes. Following is the report on the conference.

Union Finance Minister Shri Pranab Mukherjee inaugurates the conference as Rajya Sabha Deputy Chairperson CA. K. Rahman Khan, the then Minister of Corporate Affairs Shri Salman Khurshid, MCA Secretary Shri R. Bandyopadhyay, ICAI President CA. Amarjit Chopra, ICAI Vice President CA. G. Ramaswamy and NIRC Chairman CA. Atul Gupta look on.

Day One: January 4, 2011

Inaugural Session Stresses on Role of Accountancy Profession in Inclusive Growth

Welcoming the galaxy of dignitaries, the ICAI President **CA. Amarjit Chopra** highlighted the issues relating to corporate governance and a need for chartered accountants to play a sustained role for its recovery in the years to come. He highlighted the robustness of India in withstanding the global meltdown and complimented the RBI for the measures it had taken. He brought to the attention of the gathering the Institute's various initiatives and committed that the roadmap laid down by the ICAI for Indian accounting standards converged with IFRS would be fully implemented in letter and spirit.

CA. Amarjit Chopra

Speaking on the occasion, **Shri R. Bandhopadhyaya,** Secretary, Ministry of Corporate Affairs apprised the gathering of various recent path-breaking initiatives of the ministry to strengthen corporate sector in India. He stated that corporate sector needs to adopt the philosophy of inclusive growth so that country achieves the desired growth rate of 9 per cent. He said that while the new Company Law will enable Indian businesses to become global, the Limited Liability Partnership Act will facilitate growth of all professions in the country.

Shri R. Bandyopadhyay

The the Minister of Corporate Affairs **Shri Salman Khurshid**, who was the Guest of Honour on the occasion, in his address acknowledged that Indian accountancy profession has veritably come of its own and has its footprints in every sphere of professional activity across the globe. Stressing that Convergence of Indian accounting standards with International Financial Reporting Standards is the need of the hour, he said that his ministry will ensure smooth convergence in India for the benefit of Indian economy in particular and global economy in general. "Sovereignty of thoughts needs to be

Shri Salman Khurshid

respected and we have taken care of that while converging with IFRS," he said. He was of the opinion that IFRS is the next big revolution happening in India after software revolution and it will offer vast opportunities for Indian CAs across the world, and that India has special DNA for accountancy. "Good things like good wine take time to mature and the time has to come to celebrate Indian accountancy profession".


CA. K. Rahman Khan

Another Guest of Honour Deputy Chairperson Rajya Sabha **CA. K. Rahman Khan** in his address said that accountancy profession was undergoing a paradigm shift with demand far outnumbering supply. He said that accountancy profession was unique as its acts as trustee of transparency. However, sounding a note of caution he said changing paradigm of financial reporting needs to be carefully understood. He urged the ICAI to make special efforts to facilitate ethical conduct of Indian CAs and to lessen the expectation gap "which was bound to exist in view of ever rising expectations of the society from the profession". Stating that absence of reliable financial information leads of bad governance, he stressed that ICAI should help government in all its activities concerning public funds, including in schemes like JnNURM and Mahatma Gandhi Rozgar Yojana. "Only chartered accountants can help the Government plug leakage and misappropriation of funds and ensure value for money to the ordinary citizens," he said. He said the Government accounting reforms are still pending and it is only the accountants who can facilitate flawless transition from cash based to accrual accounting in Government. Emphasising on the need to promote brand Indian CA, he said national and international horizons of Indian accountancy profession need to be explored further and professional reciprocity is the need of the hour to make Indian accountancy profession truly global.


Shri Pranab Mukherjee

Addressing the conference, the Chief Guest Union Finance Minister **Shri Pranab Mukherjee** lauded the ICAI for taking various initiatives for the implementation of Indian Accounting Standards converged with IFRS in letter and spirit. He said that for effective implementation of IFRS, there is a need to amend various laws and regulations and this issue is being addressed by the MCA through the new Company Law. Referring to Indian economy, the Finance Minister said "our economy has recovered robustly in 2010-2011, recording one of the fastest growth rates in the world. The economy has become remarkably resilient to both external and domestic shocks." Saying that the challenge now is to sustain the high GDP growth over an extended period of time and find the means to cross the double digit growth barrier in the coming years, Shri Mukherjee stressed that "our objective is to harness this growth to make the development process more inclusive, strengthen food security, improve educational opportunities and health facilities both in rural and urban areas".


CA. G. Ramaswamy

Proposing the vote of thanks, ICAI Vice-President **CA. G. Ramaswamy** expressed his gratitude towards all the dignitaries for their words of wisdom, and assured them that ICAI will ensure that it comes up to the expectations of the government and the society at large. He further said that the Institute would ensure that accountants continue to act as "gatekeepers of financial propriety". He sought continued guidance and support from the Ministry of Finance and the Ministry of Corporate Affairs.

Six Books Released

During the inaugural function, as many as six ICAI publications were also released by the Union Finance Minster Shri Pranab Mukherjee. These books were: *'Technical Guide on Audit of Non-Banking Finance Companies', 'Practical Approach to General Insurance Management – A Handbook for Insurance Professionals, Social Audit of Public Money (A Study to Formulate Social Audit Manual with Special Reference to NREGA)', 'Excellence in Financial Reporting: Illustrative Guide to Presentation and Disclosures', 'Drafting, Conveyancing, Registration and Stamping of Commercial and Other Documents', and 'Changing Times in Government Accounting – A Status Paper.'*

ICAI Council Members with Dignitaries

MoU with Higher Colleges of Technology, Ministry of Higher Education and Scientific Research, UAE

CA. Chandra Sen Hada with ICAI President CA. Amarjiy Chopra

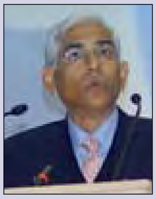
The ICAI signed a MoU with the Higher Colleges of Technology (HCT), the largest higher educational institution in UAE. ICAI Vice-President CA. G. Ramaswamy welcomed the delegates in this session. ICAI President CA. Amarjit Chopra also addressed the delegates. **CA. Chandra Sen Hada**, CFO, CERT Group of Companies, UAE, signed the MoU on behalf of the HCT. He said the MoU will provide for conceptualising of a Specialised Module by the ICAI for the UAE Nationals by devising an International curriculum in Accountancy by integrating local needs keeping in mind various requirements of different levels of accountancy and audit professionals in the UAE. It would help more than 5,000 members of the ICAI present in the Middle East region.

ICAI Awards for Excellence in Financial Reporting for 2009-10

In a special session organised on the first day of the Conference, the ICAI conferred ICAI Awards for *Excellence in Financial Reporting* under different categories for the year 2009-10 on various organisations. The awards were given away as detailed hereunder:

Category		Award	Name of the Entity	Annual Report and Accounts for the year ended
I	*Banking Sector*	Gold Shield	HDFC Bank Limited	March 31, 2010
		Silver Shield	ICICI Bank Limited	March 31, 2010
		Plaque for Commended Annual Report	Kotak Mahindra Bank Limited	March 31, 2010
II	*Insurance Sector*	Gold Shield	SBI Life Insurance Co. Ltd.	March 31, 2010
		Silver Shield	Birla Sun Life Insurance Co. Ltd.	March 31, 2010
		Plaque for Commended Annual Report	Decided not to give the award	
III	*Manufacturing Sector (Turn over equal to or more than ₹500 crore)*	Gold Shield	Dr. Reddy's Laboratories Limited	March 31, 2010
		Silver Shield	TATA Chemicals Limited	March 31, 2010
		Plaque for Commended Annual Report	Decided not to give the award	
IV	*Manufacturing Sector (Turn over less than ₹500 crore)*	Gold Shield	Decided not to give the award	
		Silver Shield	Ganesh Polytex Limited	March 31, 2010
		Plaque for Commended Annual Report	Decided not to give the award	
V	*Infrastructure & Construction Sector (Turn over equal to or more than ₹500 crore)*	Gold Shield	Decided not to give the award	
		Silver Shield	Decided not to give the award	
		Plaque for Commended Annual Report	Decided not to give the award	
VI	*Infrastructure & Construction Sector (Turn over less than ₹500 crore)*	Gold Shield	Decided not to give the award	
		Silver Shield	Decided not to give the award	
		Plaque for Commended Annual Report	Decided not to give the award	
VII	*Service Sector (other than banking & insurance) (Turn over equal to or more than ₹500 crore)*	Gold Shield	Tata Consultancy Services Limited	March 31, 2010
		Silver Shield	Persistent Systems Limited	March 31, 2010
		Silver Shield	Infrastructure Development Finance Company Limited	March 31, 2010
VIII	*Service Sector (other than banking & insurance) (Turn over less than ₹500 crore)*	Gold Shield	Nucleus Software Exports Limited	March 31, 2010
		Silver Shield	Info Edge (India) Limited	March 31, 2010
		Plaque for Commended Annual Report	Decided not to give the award	
IX	*Not-for- Profit Sector*	Gold Shield	The Akshaya Patra Foundation	March 31, 2010
		Silver Shield	Vidya Dairy	March 31, 2010
		Plaque for Commended Annual Report	Helpage India	March 31, 2010
X	*Local Bodies*	Gold Shield	Decided not to give the award	March 31, 2010
		Silver Shield	Decided not to give the award	March 31, 2010
		Plaque for Commended Annual Report	Surat Municipal Corporation	March 31, 2010

Day Two: January 5, 2011
Session I: Economic Resilience through Good Governance


Shri Vinod Rai

The Comptroller and Auditor General of India, **Shri Vinod Rai**, spoke at length on Economic Resilience through Good Governance. He emphasised on the need of setting up of a transparent, reliable, acceptable and credible system to be developed by using the expertise of chartered accountants. He stressed that good governance depends on solid foundation of systems, procedures and processes in place and these should not in any way be tinkered with. Stating that if India could withstand financial shocks, it is time for introspection and understanding whether the economic growth will take place under stress or on sustainable basis. He also mentioned that auditing is a significant tool for ensuring good governance. Because of global interdependence, no economy in the globe can grow alone and it has to get along with others. For India's economic growth, the important signal is the growth of agriculture. Government is duty bound to put systems, processes and procedures not only in place but also effectively implement the same. He stated that transparency is the key for good governance and, for common man, needs and demands are growing. He also emphasised on need of performance audit whereby it is ensured that the money spent by the Government should be spent for the purpose it is allotted, and it is also accounted for. He highlighted that the services of chartered accountants are crucial support for the government in its various endeavours, including efforts for good governance. He complimented the ICAI efforts for IFRS implementation and conducting various training programmes for disseminating knowledge. ICAI Central Council Member **CA. S. B. Zaware** proposed the vote of thanks to Shri. Rai.


CA. Vinod Jain

Welcoming the other dignitaries of the Session I, the Central Council Member **CA. Vinod Jain** stated that the role of accountants in economic resilience and good governance is important and it should be pondered over as to whether this role has to undergo further changes. He suggested that IFAC should think of having international qualifications and wanted to know whether fair value really depicts fairness in all matters.


Mr. Ian Ball

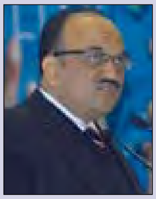
Speaking on the occasion, IFAC CEO **Mr. Ian Ball** said that after financial meltdown, the role of accounting profession has come to be widely debated among many circles including policy makers and the regulators. He stated that it is the duty of the profession to respond to the debate for which the world at large is looking forward to. He emphasised on the need for strengthening the regulators and improving the quality of financial reporting by the corporate as well as the government. He said it is not only a financial crisis but sustainability crisis as well. Financial crisis has affected government regulations and infrastructures. Crisis which originally began in US as sub-prime had spread to other parts of the globe and as a result, finance and banking business are looking forward to the support of accounting profession. He said that IFRS is just one beginning where world can get interconnected. Financial information, structures and strategies need to be re-looked into. Business processes also need a re-look and review while financial information needs greater scrutiny, he added. He emphasised on content of audit reports, disclosures regarding risks and said that in these the problem is the conflict of understandability by the end-users. He complimented the MCA for evolving the voluntary guidelines on corporate governance and on Corporate Social Responsibility.


CA. T. V. Mohandas Pai

The Executive Director of Infosys Technologies Ltd., **CA. T.V. Mohandas Pai** spoke on 21st Century Accountant. Citing India being second largest in population, Mr. Pai gave a snapshot of India on population, life expectancy, its imports and exports etc. Due to its rapid development in terms of increasing population, he said that the concern is major about commodity prices which are going up. Question at the outset is how it affects CA and his role in the 21st Century. He stated that in the next two years, significant changes are coming up which will impact the financial areas, viz. IFRS convergence, Direct Tax Code, GST and new Company Law. He highlighted that the intellectual capital of ICAI, the second largest pool of chartered accountants, can render globalised services. The need of the hour is to capitalise such potentials by enlarging our accounting professionals and increasing the accounting knowledge base, and investment should be made in the field of accounting research. At the end, he said that dream should be to make India the largest hub of accounting professionals and to become top of the three economies in the next 20 years.

Session II: Harmonisation of Global Standards on Accounting- Sharing Experiences

In his welcome address, Central


CA. Manoj Fadnis

Council Member **CA. Manoj Fadnis** talked about the IFRS and its implementation.


Mr. Dinu Hary

President of the New Zealand Institute of Chartered Accountants, **Mr. Dinu Hary**, chaired the session.

Sharing information on the Australian perspective, Director Asia of the ICAA, **Mr. Bill Palmer** said IFRS were made effective in Australia from January, 2005 and are applicable to all corporate entities. IFRS in his country are essentially principle-based and their implementation has implications such as cost, time, audit fees, realisation of benefits and impact on SME sector.


Mr. Bill Palmer

On the Japanese perspective, the IFRS Foundation Trustee **Mr. Noriaki Shimazaki** told about the roadmap that Japan has laid in the recent past for IFRS, which aims at mandatory application of the same from 2015. He also stated that dialogue is in process with India regarding convergence with IFRS and made comparison between the two countries regarding the related efforts.


Mr. Noriaki Shimazaki

The ICAEW Vice-President **Mr. Mark Spofforth** said that convergence involves multiple issues due to the reason that IFRS are basically principle based as compared to rule-based systems and this requires a judgement. In the convergence of standards, there is mainly an issue relating to national legacy and the volume of disclosures. He also said that IFRS have shortcomings in their application for non-publicly traded companies, insurance and extractive industries.


Mr. Mark Spofforth

A member of IASB, **Mr. Prabhakar Kalvacherla**, talked about steps that have been taken for harmonisation of accounting standards by the IASB which has picked up pace in the last 6 years and said that 120 countries are basing their standards on IFRS. He stated that USA and IASB have jointly signed MoU to work on several accounting standards. Talking about the benefits of global standards, he said they result in efficient allocation of capital globally, reducing the cost and increasing efficiency.


Mr. Prabhakar Kalvacherla

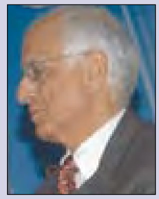
IASB Vice-Chair-Elect and Chairman of ASB, UK, **Mr. Ian Mackintosh**, spoke about the IFRS in the context of European countries, European Commission and the use of carve-outs by UK companies.


Mr. Ian Mackintosh

Session III: Emerging Avenues for Profession

ICAI Vice-President CA. G. Ramaswamy in his opening remarks said that certain new areas are emerging for the profession and the traditional core competence of professionals should not in any way stop furthering and capturing new areas.

Member of Planning Commission, **Mr. Arun Maira**, stated that accounting profession plays a vital role in good governance of society. Governance keeps together everybody in harmony, he said, adding that world faces the challenge of governance and sustainability, and entire people should be included in growth process of the country.


Mr. Arun Maira

Accountants have to ensure growth on sustainable basis taking into account the national assets which is 'people'. He said that accountancy profession should keep in mind the interests of the society at large. He said that 3 L's, i.e. Localisation, Lateralisation and Learning are catalysts for change. Inclusive growth should be the target of the economy and accountants should strive to ensure the same, he said, adding that accounting for the society is the way for growth of the profession.

A fellow of ICAI, **CA. R. C. Vaish** spoke at length on *Key Issues in International Taxation* and focused on the four key issues: Tax policy and economic growth, Direct and indirect taxes, Cross border movement of goods and services, and Conflicting positions and problems. He also highlighted the lack of harmonisation of international tax policies and opined that if convergence with IFRS can happen, there can be similar convergence in the area of international taxation too.


CA. R. C. Vaish

Session IV: Emerging Contours in Financial Reporting

Member, XBRL International, **Ms. Liv Watson,** said the problem today in financial reporting is to access the data which is locked in proprietary


Ms. Liv Watson

custody. She said: *We have not created information world and only have created space. Data needs to be analysed. Results of companies must be comparable with others.* She further added that XBRL is the language of financial and business reporting, which adds meaning to electronic business data. She stated that semantic risk analysis is facilitated through XBRL as it is demand driven. "XBRL is one integrated reporting process and it is accessible, usable and reusable. If company is not shifted downwards in XBRL radar it automatically drops off," she said.

Shri Rajendra Shreemal

Vice-President of WIPRO Technologies Ltd., **Shri Rajendra Shreemal**, spoke on *Fair Value accounting – A Practioner's Perspective.* He said that, because of international derivatives markets are growing in terms of volume, value and complexity, historical cost has no use to stakeholders and hence Fair Value (FV) accounting has emerged. Since derivatives can be seen as pure or disguised, FV is necessary. On alternatives, he stated that investors prefer fair value because risk profile is better reflected which enables better financial decision making.

CA. P. R. Ramesh

A fellow of ICAI, **CA. P. R. Ramesh**, presented his views on *Fair Value Measurements – Challenges for Auditors* and stated that FV has lot of values from the perspective of Indian Accounting Standards and IFRS. He cited the examples of IAS 39/IFRS 9, IAS 16, IAS 38, IFRS 2, 3. He suggested that proposed definition of FV is the exit price. He said that there is need for appropriate disclosures in financial statements about measurement methods and uncertainty. He further stated that reliability of audit evidence is influenced by its source and nature. He said that internal control needs to be well developed for fair value measurement.

Shri Samar Jha

Financial Commissioner (Railways) **Shri Samar Jha** in his address gave a detailed account of the accounting systems, procedures and problems in Indian Railways. He said that in view of the problems in accounting systems of the Indian Railways, it has been difficult to raise capital from the market. And as such, Indian Railways went in for accounting reforms four years ago. One of the major focuses of the reforms has been 'activity-based costing'. 'We have to walk in tandem with GASAB.' He said the challenges like agitations, naxalism, etc., are the challenges for accountants and financial managers also, and accounting reforms will meet many of these challenges. He called for professional guidance and consultancy from ICAI for implementation of accounting reforms in Indian Railways.

Mr. Tomoyuki Furusawa

Mr. Tomoyuki Furusawa from Financial Service Agency, Japan, spoke on convergence with IFRS and told about the relationship between India and Japan in this regard. He appraised about the recent developments in Japan in the context of convergence with IFRS. He gave an account of the history of Accounting Standards in Japan and apprised about Japan's roadmap for IFRSs application.

Mr. Atsu Kato

Addressing the delegates, **Mr. Atsu Kato**, Vice-Chairman, Accounting Standards Board, Japan, gave a bird's eye view of the recent activities and objectives of the Asian-Oceanian Standards Setters Group (AOSSG). He informed the delegates that the AOSSG was established in the year 2009 in view of the dominance of the Europe and US over IASB/IFRS and also since countries of the Asia-Oceania region were gaining prominence in terms of economy and moving towards IFRSs. He congratulated the ICAI for its active contribution to the Group and also for taking chair of the *Agriculture* working group.

Central Council member **CA. K Raghu** gave a vote of thanks.

A **cultural extravaganza** was also organised in the night at Siri Fort Auditorium for the participants of the conference. Leading singer Alka Yagnik and her troupe was among those who performed on the occasion.

Day 3: January 6, 2011 Special Session on Governance and Ethics

Shaikh Saqib Masood

ICAI President CA. Amarjit Chopra in his opening remarks emphasised on the importance of governance and ethics in corporate world.

Shaikh Saqib Masood, President of the Institute of Chartered Accountants of Pakistan (ICAP) expressed his views on accountancy profession and governance and ethics from Pakistan's perspective. He said his country is keen to encourage good governance to increase the transparency and accountability in the competitive market, which may lead to robust growth of corporate ability. He also stressed the enactment of Code of Corporate Governance and its implementation for the family owned businesses and large enterprises.

Session I: Panel Discussion on Landscaping Indian Chartered Accountants Globally


CA. Ved Jain

Past-President of ICAI **CA. Ved Jain** in his opening remarks focused on globalisation of brand 'Indian CA' and welcomed all speakers representing various foreign chapters of ICAI. ICAI President CA. Amarjit Chopra moderated the session.


CA. Surendra Jain

CA. Surendra Jain, Chairman of Dubai Chapter of ICAI, highlighted the growing recognition of Indian CAs abroad. He said that there are more than 6000 CAs in Dubai. He informed about various activities undertaken by the chapter for promotion of Indian accountancy profession and members in the region. To overcome the challenges for the recognition of Indian CAs globally, he suggested the need to have a Global Hub of CAs to cater the needs of the members residing in the Middle East countries, a liaison with the government of the nations to recognise the profession, and the marketing of profession abroad.


CA. Girish Jain

CA. Girish Jain, Chairman of Doha Chapter of ICAI, informed that Doha Chapter is the first overseas chapter incorporated in 1981. He analysed the future prospects of the CAs in Doha and emphasised that members need to be constantly updated with the latest technologies, and that they lack the desired communication and soft skills. Of course, not knowing the language of the country is also an obstacle. They lack business opportunities as most of the members are in job. To overcome the above issues, he suggested that there must be proper marketing of the CA profession and benchmarking survey so as to create awareness among Indian CAs.


CA. N. K. Somani

CA. N. K. Somani, Chairman of Nigeria Chapter of ICAI, stated that Nigeria is an emerging market and there was a need for marketing of the Indian accountancy profession to bolster the prospects and recognition of Indian CAs in the region. He said that in Nigeria employers prefer experienced persons and Indian CAs looking for offshore opportunities need to be trained keeping that aspect in mind. He put special emphasis on more efforts for greater recognition of Indian CAs in Nigeria since there is a big scope for the development of the country due to emerging industries and production of large-scale production of oil and gas.


CA. Vikas Puri

CA. Vikas Puri, Chairman of Abu Dhabi Chapter of ICAI, stated that Abu Dhabi Chapter, which was established in 1984, has been undertaking several initiatives for greater recognition of Indian CAs globally and these include sharing of knowledge, facilitating of employment and providing training on soft skills, facilitating and mentoring of CA students and articleship, providing platform for the networking of members, profile visibility and branding, good schooling infrastructure.


CA. Yateender Gupta

CA. Yateender Gupta, Chairman of Australia (Sydney) chapter of ICAI, gave a detailed account of initiatives and activities of the chapter for promoting Indian CA profession. He said Australia is full of opportunities for Indian CAs and more initiatives should be taken to grab these. Some of the areas that need to be focused on in this regard include training in XBRL, IFRS and global accounting skills. He further emphasised on healthy competition culture and true networking between the chapters of ICAI.

Vote of thanks was given by the Vice-President of ICAI, CA. G. Ramaswamy.

Session II: Leveraging Knowledge Economy for CA Profession


CA. Raman Roy

CA. Raman Roy, CMD, Quattro BPO Services, the key note speaker of this session, enlightened the audience on the concept of Knowledge Economy and quoted Peter Drucker that "the Next Society will be the knowledge economy." Mr. Roy highlighted that the main constituents of Knowledge Economy were Chartered Accoun-tants, Engineers, Economists, etc. Innovative firms will be the drivers in the Knowledge Economy. The best and easy way for a chartered accountant to leverage Knowledge Economy is to imbibe its traits. The significant traits are innovation, dynamism and change management. Constant learning should be part of the DNA of the chartered accountants, he said. He further suggested that chartered accountants should pioneer innovation that can be built on strengths of existing "generally accepted accounting conventions".


Mr. C. R. Sundaramurti

Comptroller General of Accounts (CGA) of India **Mr. C.R. Sundaramurti** spoke on *Changing Paradigm of Government Accounting* and gave a broad overview of the functioning and objectives of the office of the CGA of India. He highlighted that departmentalisation of accounts was a major reform. He said the CGA acts a Principal Advisor to Government in all accounting matters and submits critical fiscal analysis of the country to the Finance Minister every month. He made a reference to the World Bank Report which enlists the aspects of good governance as public sector management, accountability, transparency, human rights, legal and regulatory framework and participatory approaches. The CGA, taking cue from these aspects, initiated three landmark reforms affecting public financial management. First was introduction of "Fiscal Responsibility and Budget Management Act, 2003" which imposed stringent fiscal controls on Government expenditures. Second was the introduction of the Right to Information Act, 2005 to bring about transparency and accountability in Government functioning. Third was Outcome Budget introduced since 2005 as a policy tool to ensure effective utilisation of budget allocations. Thereafter, he discussed the reform measures taken by CGA at micro level. He mentioned that a pilot project for the same has been undertaken in two departments with the help of the ICAI. He emphasised the need for paradigm shift in the Internal Audit and Internal Control Systems to make them more risk-oriented, in order to add value to the process of governance. Ultimately, the vision is to make Internal Audit an inherent part of management report, he said.

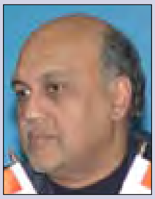
Session III: Bridging Expectation Gap Post-Satyam Fiasco


CA. Amarjit Chopra

ICAI President **CA. Amarjit Chopra** in his opening remarks said that Satyam is not a failure on the part of auditors but was a result of failure of all pillars of corporate governance. He focused on the role of independent directors, chairman of audit committee, existing procedures of external confirmations auditing and assurance norms and said that all these should be thoroughly reviewed. He told about the fact that face value of entrepreneur also plays an important role in audit.

CA. T. Vishwanath

ICAI Past-President **CA. T. S. Vishwanath** stated that Satyam should not be the cut off for assessing the expectation gap from the profession. Good governance is implicit in ethical values and no profession can survive without it. He emphasised that the gap between public expectation and what professionals deliver arises due to lack of awareness of the responsibilities of the professionals. He remarked that Satyam had the finest of the Boards, risk assessment procedures, thorough inspection by US Securities Exchange Commission, and still it failed. However, the auditor being last in the scene was most questioned. Even the EU Green Paper has expressed concerns over to functioning of the large firms. Public perception, he remarked, is based on interaction of CAs as ambassadors performing their professional duties. Therefore, he emphasised that autonomy is not freedom from responsibility. Any profession is relevant if it addresses the public need with integrity, ethical values, etc. He further stated that soul searching within us is necessary and not just box ticking approach and setting of rules is the solution. He also mentioned that an auditor should always question if anything is in public interest, howsoever high and mighty is the respondent. He said that maintaining distance from clients and acting according to courage of conviction, zero-tolerance of audit failures, and reporting beyond statutory disclosures shall check such failures. He concluded that accounting and auditing standards are means to an end and not an end by itself.



Mr. Siddharth Birla

ICAI Central Council Member **Mr. Siddharth Birla** mentioned that things should be better at the level of regulators and even at present "we have robbers who are proficient in regulatory mechanisms". He emphasised that regulations cannot legislate intentions but can punish the bad intentions and intentional negligence. He said that key managerial personnel are for the first time being brought in the realm of accountability by virtue of new Companies bill. Various measures like SFIO, rotation of auditors, disaster management programme and risk-assessment procedures have been rightfully addressed in the new bill. He concluded that ultimately it is the independence of the independent directors which is to be ensured for successful corporate governance.

CA. Amarjit Chopra seconded the views of both the speakers and emphasised that procedure doesn't require any change; implementation needs to be improved. While proposing a vote of thanks to the speakers, he quoted that *Success is the time to judge the Goals and Failure is the time to judge the Methods.*

Session IV: Risk Based Assess-ments—New Dimensions

Ms. Diana Hillier

Ms. Diana Hillier, Deputy Chair, International Auditing and Assurance Standards Board (IAASB), discussed the *Recent Develop-ments in Auditing Standards* by the IAASB and informed that till date, IAASB had issued 35 Clarified ISAs. She mentioned that emergence of knowledge economy was posing newer challenges to auditors. The focus of the IAASB had been on helping the auditors in coping with these challenges. She also congratulated the Institute of Chartered Accountants of India (ICAI) for completing its convergence process with Clarified ISAs. Discussing the various on-going projects of the IAASB relating to auditing, assurance and other related services standards, Ms. Hillier sought the inputs of ICAI regarding the proposed strategy and work program of the IAASB that included monitoring of the ISA implementation, promoting benefits of adoption of ISAs, assisting in the implementation of the ISQC 1.

CA. Narendra K. Aneja

A Fellow of the ICAI **CA. Narendra K. Aneja** spoke on the topic, *"Risk Based Assessments-New Dimensions – Internal Audit for Competitive Advantage".* He mentioned that the new internal audit model required the internal auditors to focus more on the risks associated with an entity. He also mentioned about the CCERG (pronounced as *"surge"*) strategy for competitive advantage, explaining that C means Control Environment, C - Compliance Audit, E - Ethical Values, R - Risk Management and Mitigation and G - Governance Audit.

Mr. Graham Meyer

Mr. Graham Meyer, Chief Executive Officer, Institute of Chartered Accountants in Austria, spoke on the financial crisis of the recent past *vis a vis* the role of the regulators in those situations and how would auditing standards help in coming out of such situations. He emphasised the need to improve the quality of the auditing standards. He informed that ISA 315, *Identifying and Assessing the Risks of Material Misstatement through*

Understanding the Entity and Its Environment covered the significant aspects relating to risk assessment. He pointed out that there were three stages in the risk, first, *Risk Assessment,* covering the aspects relating to risks arising out of the material misstatements, second, *Risk Responses* covering aspects relating to responses to the risks of material misstatements and the third, *Reporting*, covering aspects relating to giving appropriate audit opinion.


Shri P. K. Choudhury

Shri Pranab K. Choudhary, Vice-Chairman, ICRA Ltd. and CEO, of the ICRA Group, gave the industry perspective of risk based assessment. He pointed out that business decision could be divided into two parts, perceived risk and return, which could further be sub-divided into risk mitigation and risk tolerance. He also discussed the factors behind risk analysis.

Special Address: On Convergence with IFRS—Issues and Challenges


CA. Y. H. Malegam

CA. Y. H. Malegam, Chairman, National Advisory Committee on Accounting Standards and Past President of the ICAI, brought out various issues and challenges in convergence. He brought out the rationale of the country for convergence rather than adoption. He mentioned that there are a few carve outs which are taken up with IASB. Subject to these few carve outs, the standards are almost fully convergent. He further mentioned that the differences between IFRSs and Indian Accounting Standards basically fall into differences arising from legal and regulatory requirements due to requirements of the Companies Act, 1956 and Schedule VI, and those in language and difference in substance. He brought out the major carve outs as follows: Business Combinations—Bargain Purchase Gain, Fair Value of Liabilities, Foreign Currency Loans, Real Estate Sales, Opening Balance Sheet, and Removal of Options.

CA. Y.H. Malegam also stated that there would be two sets of accounting standards—one converged with IFRS with a few carve outs and the other be substantially in accordance with IFRS with some more deviations. These carve outs in the second set will mainly cover areas such as fair value accounting and time value of money. He pointed out that presently in India there is no requirement for the preparation of consolidated financial statements except Clause 41 of the listing agreement requires the preparation of CFS. He further mentioned that the major concern is the impact of convergence with IFRS is on the taxation as it may result in an increase in tax. He also impressed upon the need for imparting both knowledge and training to users and preparers, and informed that ICAI has taken up steps to educate its members. He also mentioned that India will play a larger role in international scenario.


CA. Nilesh Vikamsey

Central Council Member of ICAI, **CA. Nilesh Vikamsey** gave the vote of thanks for this Session.

Special Session: Signing of Joint Declaration between Association of International Accountants and ICAI

A joint declaration was signed by The Institute of Chartered Accountants of India (ICAI) and the Association of International Accountants (AIA), United Kingdom. The declaration was signed by the ICAI President CA. Amarjit Chopra and Mr. M. S. Khare from the ICAI and the AIA respectively. The declaration has been prepared to benefit both the ICAI members and the students. An honorary membership of the AIA was also conferred on CA. Chopra by Mr. Khare on behalf of AIA.

Session V: Professional Panorama


CA. Jaydeep N. Shah

Central Council Member of ICAI **CA. Jaydeep Narendra Shah** gave the opening remarks for the session.


Mr. Alex Malley

Chief Executive Officer of the Certified Public Accountants of Australia, **Mr. Alex Malley,** while speaking on *Leadership, Sustainability and Non-Financial Reporting,* stressed on sustainability principles and said that students should be aware of the fact that accounting principles would not pay as much as sustainability principles. He said that the accountancy profession effectively could help in achieving sustainable economic growth. He also informed that only a professional code of conduct based on sound ethical principles and an emphasis on risk management could empower economies and companies in fighting corruption, currency fluctuations and natural disasters like drought, famine and floods. He said that accountants are the strategic resource managers.


Mr. Edward Nusbaum

Chief Executive Officer of the Grant Thornton International, **Mr. Edward Nusbaum,** spoke on 'Corruption and Anti-Money Laundering'. He said about one trillion dollars is the value of the global corruption every year as per the estimate of the World Economic Forum. He expressed his concerns that it was not just about the financial impact but also a serious issue about the reputation quotient. He said that the problem of corruption should be addressed from top to bottom in any organisation.

Central Council Member of ICAI **CA. C. S. Nanda** gave the concluding remarks of the session.

Session VI: Panel Discussion on Country Perspective on Governance & Ethics

Past-President of SAFA **CA. Komal C. Chitracar,** in his keynote address, spoke at length about SAFA and its initiatives. He acknowledged that the ICAI had been one of the founders of SAFA and commended ICAI support in development of SAFA. He exclaimed that equal distribution of wealth will not solve the problem of economy. On spiritual side, he commented that attachment to wealth is the source of such problems. He stressed the need for raising a united voice at international level to address the problems of governance and ethics.

CA. Komal B. Chitracar

President of the Institute of Chartered Accountants of Nepal, **CA. Sunir K. Dhungel** said that he was proud to be a member of the ICAI. He talked about the history of ICAN and various arrangements and memorandums that the Institute had undergone in the past.

ICAI President CA. Amarjit Chopra began with the statement that the issue of ethics is applicable to corporates and profession as well as to governments. He was firm on the opinion that ethics could not be codified, unlike governance. He said that ethical behaviour of people is like snow that melts and reaches from top to bottom. He warned the profession and its professionals that governance may maximise the wealth of an organisation but it can not sustain the development in the absence of ethics. He then gave the vote of thanks to all the participants, the delegates and speakers for the success of the event. ■

CABF DONORS

The Institute of Chartered Accountants of India duly acknowledges the following members for making generous contributions to the Chartered Accountants Benevolent Fund (CABF):

CA. Lalit Agarwal

CA. R. S. Sahoo

CA. S. C. Bhadra

CA. P. S. Panda

CA. A. K. Sabat

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23	512777	CA. Jaya Bhalla	10000.00
24	009650	CA. Ashok Rao	10000.00
25	062336	CA. Ramesh Chandra Pradhan	10000.00
26	063016	CA. Achintya Kumar Mishra	10000.00
27	053900	CA. Pravat Nayak	10000.00
28	051400	CA. G.Padmanabhan	10000.00
29	054892	CA. Uttam Kumar Mahapatra	10000.00
30	053968	CA. Mihir Sahu	10000.00
31	103874	CA. Ashish Prabhu Verlekar	10000.00
32	205459	CA. B. Manoj Kumar Patro	7777.00
33	057455	CA. Jyotirmay Pradhan	5555.00
34	063474	CA. Raja Narayan Tripathy	5555.00
35	042288	CA. Shanbhag Rajesh Vishwanth	5100.00
36	057293	CA. Satyajit Mishra	5001.00
37	405343	CA. Puneet Agrawal	5000.00
38	086157	CA. G. C. Das	5000.00
39	058679	CA. Nihar Ranjan Biswal	5000.00
40	064894	CA. Sunil Kumar Sahoo	5000.00

Overview of Statutory Bank Branch Audit

Bank Branch Audit is a very challenging task. Extensive use of state of art Information Technology by the Bank requires knowledge of auditing through the computer. RBI monitors banking operations by issuing several Notifications and Circulars. Auditor need to be aware of these regulations which decide not only procedures and practices to be followed by the Bank, but also decides the profitability which is directly affected by provisions for Non Performing Assets required as per RBI guidelines. Understanding the current banking scenario such as new practices of supervision and control, effective Risk Management Systems, high quality customer service is necessary to understand the industry in better perspective. Enquiries into peculiarities in the operations of branch allotted would enable statutory Auditor to be more focused, more vigilant and excellent planner and executor of the bank branch audit assignment. Extensive preparations are required before accepting the bank branch audit including communication with previous auditor and understanding terms of appointment. Many peculiarities of the operations of the branch allotted including type of advances, level of NPA and type of business handled should be first noted before preparation of detailed audit plan. Analysis of final accounts and statements in the form of trends in Income and Expenses and volume of outstanding loans would decide effort and time required to complete the work on appointed date. Detailed preparation in the form of reading reports of other auditors, internal circulars, guidance note of ICAI and circulars of RBI is the must before start of audit. Understanding stages of advances, quality of security, and appropriateness of documentation, as well as knowledge of the Prudential Norms are pre-requisite to carry out audit function most diligently and effectively.

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Introduction

The Banking Sector in India has been the major driving force for the country's growth over the past decade. The role of individual Chartered Accountant either as an employee in the Banking Sector or working as an auditor is of vital importance in the present challenging times. The Reserve Bank of India which supervises and controls the banking operations in the country expects a very positive and crucial role of Chartered Accountants in Administration and Risk Management of Banks. Extensive knowledge and understanding of the banking industry is of paramount importance if the Chartered Accountant wants to come upto the expectations of the regulators.

Understanding the Current Banking Scenario

Understanding the business of the client is considered essential for appropriate planning and execution of any assignment by Auditor. Banking Industry is evidencing sectorial reforms which provide necessary strategy for Indian Bank to operate on the basis of operational flexibility and functional autonomy to enhance efficiency, productivity and profitability.

Reduction in CRR and SLR reserves, capital adequacy norms, adequate capitalisation of banks, and increase in competition by allowing the entry of new private and foreign banks have taken the industry by storm. Introduction of effective Risk Management Systems, new practices of supervision and control, and increased transparency of results through introduction of Prudential Norms have preserved the soundness of banking system in India against the global melt down. Adoption of modern technology giving the best quality customer service and diversifying portfolio in retail banking, insurance, credit cards and introduction of virtual banking have been the order of the day for even smaller banks.

Understanding the Importance of Bank Audit Assignment

The auditor should understand that auditing the bank is highly risky unless he understands the intricacies involved therein. The auditor may not only loose the assignment, but also may have to face the disciplinary action by ICAI on complaints by the Banks. Putting audit and auditor under the scanner through performance appraisal by bank ensures the high quality performance in Bank Branch Audit.

Formalities Prior to Acceptance of Statutory Bank Branch Audit

Several formalities are required before accepting the assignment of Statutory Bank Branch Audit. They include the following –

a. **Eligibility**–Audit Firm should inform the concerned bank and ICAI about important changes in the constitution in the period between preparation of panel and acceptance of audit. Some of the changes like reduction of number of partners or partnership becoming proprietorship may make the auditor ineligible to conduct the audit.

   Auditor is not supposed to accept the statutory audit if he is currently the concurrent auditor or internal auditor of the bank offering him the assignment.

b. **Communication with previous Auditor –** As per ICAI guidelines, no Audit assignment can commence unless appropriate NOC is obtained from the previous auditors. Some professionals have wrong notion that this does not apply to audits allotted by Government or PSUs. Generally the appointment of branch auditor is done well in time by the respective banks enabling the auditor to comply with this requirement barring in very exceptional cases of offering additional branches due to rejection by some other auditors. In some cases the auditor will in fact gain tremendous knowledge on the state of affairs at the branch from the previous auditor either in formal or informal communication with him.

c. **Understanding the terms of appointment –** Many times a Chartered Accountant getting the Bank Branch Audit for the first time or getting very large or specialised Branch may be so elated that he may not read the terms of appointment carefully. It is extremely important to know the following for smooth execution of the Statutory Audit –

   i. <u>The exact location of the Branch/(s) to be audited.</u> – The distance from office of CA will decide the reimbursements of travelling and conveyance by the Bank and also will help audit firm to allocate staff judiciously.

   ii. <u>The last date of submission of the report and statements</u>–This is very crucial especially if more than one branch is allotted and/or branches are in Rural Areas or Specialised branches are being audited for the first time requiring more time for assimilating and understanding information and preparation of Report. The location may also be crucial from point of view of knowing the physical facilities like quality of Locality, availability of Hotels, Working Hours, accessibility to Internet/ Library/Printing Facility, etc.

   iii. <u>The documents to be certified</u>–The complete list of documents requiring scrutiny and certification given in the appointment letter will help the auditor in preparation of detailed audit plan, allocation of duties amongst audit staff, checking the linkages amongst key reporting figures in various statements and allocating appropriate time for each function required to be carried out thereby reducing the possibility of time overrun and consequential stress and errors in completing the task. Unless this is done, the Audit staff may be at a loss to know that many important statements to be certified are not even reviewed for the first time until last day.

Peculiarities of Branch Operations

The auditor needs to understand the peculiarities in operations of the branch allotted to him e.g. -

a. Whether the branch is Deposit oriented or Advance oriented.
b. Type of Advances that form the Major percentage of total Advances i.e. SSI, Industrial, Housing, Agriculture, Term Loans against FDR's/NSC'S/Govt securities, Vehicle Loans, etc.

c. Whether Branch handles Foreign Exchange Transactions on own account as well as on behalf of other branches.
d. Whether Branch handles Government Business including collection of TDS, VAT, Service Tax, PPF, Income Tax, etc.
e. Whether Deposits or Advances have increased substantially over a short period and if yes, the type of customers and borrowers added including transfer of accounts within Branches of the same Bank or takeover from other banks.
f. Whether any new scheme of Deposit collection at high rate is launched during the year and whether any incentives are offered for such mobilisation.
g. Whether any new scheme is launched offering advance to special category of Customers like Exporters, Professionals, Students, Senior Citizens, etc or offering Advance on special terms in various loan categories like Housing loans, Vehicle loans, Agricultural loans, etc.
h. Whether there is a substantial increase or reduction in Non Performing Assets (NPA) percentage during the year.
i. Whether any Frauds by or against the Branch were detected during the year under Review and if yes, then the result of investigations including perceived weakness in internal controls at the branch affecting audit methodology and assessment of risk.
j. Whether any cases were filed against the Branch including in Consumer courts or by Landlords affecting actual and contingent liability accounting/disclosures.

All these and more enquiries would enable Statutory Auditor to be more focused, more vigilant and excellent planner and executor of the bank branch audit assignment.

Analysis of Final Accounts and Statements of the Branch

Auditor should analyse the final accounts and year end statements of the branch to know the following:

a. **The trends in income and expenses and their relation with movements in Assets and Liabilities** – In case these trends and averages are found to be divergent then satisfactory explanations are required from branch. If no such study is carried out by the branch then divergent trends would require more thorough checking in the form of increased percentage coverage and proper sampling of individual items of income and expenses to be checked.
b. **The volume, value and categories of outstanding Loans** – This study will help CA Firm to allocate the work at appropriate Level of Competence of staff. This will also indicate the number of forms detailing all aspects of borrower account to be certified for Large Loans.
c. **Decide percentage verification** – Long Form Audit report specifies the minimum percentage verification of Loans as 5 per cent or ₹2 crore whichever is less. In addition various comments required to be given in LFAR would need appropriate sample to be drawn from all aspects of Branch's Business such as all income and expense heads, small loans, Bills, L/C and Guarantee Business, Remittances in and outside the country, Miscellaneous incomes, Capital Expenditure, etc. Appropriate percentage verification not only give auditor comfort in understanding the overall operations of the Branch, but also obviate the chances of material mis-statements.
d. **Effort and time required in issuance of various certificates** – Considering the applicability of bank's internal circulars to the Branch under review, it can be decided as to how many certificates are required from statutory auditor. Accordingly, staff and time allotment for the same is required to be made.
e. **To know abbreviations used for types of advances and reports-** Branch may use various abbreviations in the software as well as for internal communication such as HL, ODH, peculiar Statement Nos., various 'parking' accounts where amounts are debited or credited until adjusted to appropriate account, various reconciliation statements, etc. Every audit is to be conducted in different industry which has the practice of using specific nomenclature indicating specific activity. Auditor should acquaint himself of the language of the business to get the required data smoothly and to concentrate on important accounts.
f. **To select accounts for verification** – Judicious selection of Accounts is the key to successful Bank Audit. The Accounts opened and also closed during the year under audit invariably have several documentation defects. These accounts also may be such where branch officials have exceeded their authority in granting advances, which will be a serious concern to the auditor.
g. **Understanding accounting package** – Various banks use various packages for accounting as well as data assimilation. The auditor is required to acquaint himself with the niceties of the packages used by the branch in order to give appropriate commands to get the desired reports

within a short time. The audit trails given by the package need to be properly studied to identify manipulations, if any, with the results by modifying or cancelling any entries already passed.

Preparations Prior to Starting of Audit

a. **Reading the Reports** – Auditors should read the reports of all other Inspectors and Auditors such as Concurrent Auditor, previous Statutory Auditor, RBI Inspector, Computer System Auditor, etc. so as to identify the major areas requiring his attention. The report of Stock & Debtors auditor as well as Manager's handing over charge report would be extremely useful to him in his identification of risk areas. Review of these reports should be used only for identifying the previously pointed out errors, omissions and lapses in internal control as well as areas of Revenue Leakage. However, the copy paste of comments from such reports would be grossly incorrect in most of the situations, considering the fluid business situations.

b. **Visit to RBI Website** – Reserve Bank of India uploads all the notifications and circulars issued for supervision and monitoring the performance of Banks on its website www.rbi.org.in on a daily basis. RBI also publishes the Master Circulars on all subjects giving cumulative position of instructions as of 1st July of every calendar year. More than 50 such Master Circulars are available every year for free download by the users. These notifications and circulars give excellent knowledge about the way the transactions are required to be carried out by any Bank. Reading these circulars and making note is of great use in actual audit. The circulars on deficiencies found by RBI in sanctioning loans and monitoring accounts, frauds in housing finance, frauds in non-resident accounts, etc. would not only make the auditor more knowledgeable, but also efficient in bank audit.

c. **Reading Internal Circulars** – Every bank issues the closing circulars for assistance to their own staff and also to auditor detailing the entries to be passed in finalisation of the books of the branch. All accounting policies followed by the bank are stated in closing circular along with various percentages to be used. E.g. Depreciation, Provision for Interest on Saving account, etc. In addition to closing circular, auditor needs to refer to all the circulars issued by the Bank during the year under audit. Auditor may refer to the file with serial control on numbers to identify which circulars he need to study in detail for effective conduct of his audit.

d. **Guidance Note on Audit of Banks by ICAI** – ICAI issues guidance notes on Audit of Banks every year giving excellent guidance to the members on the books kept and procedures followed by the banks. It also educates the members on legal and accounting framework, accounting system, internal controls, etc of the bank and guides on how to conduct audit of various assets and liabilities and income & expenses heads of the bank.

Understanding Advances

a. **Type of Advances -** Understanding advances would mean understanding their type such as - Funded and Non-Funded. Funded advances would be where bank is transferring funds to the borrower. Non-Funded advances are in the nature of L/C's and Guarantees where no fund transfer is involved.

b. **Classification by Security -** Another classification of advances is by type of security such as - Tangible and Intangible. Such a security can be either primary or collateral.

c. **Bank Lien on Assets -** Auditor should also understand that the bank has a General Lien on any asset not charged, but in the possession of the bank in the ordinary course of business which can be set-off by the bank against the outstanding amounts. This is applicable to the assets of the borrower as well as guarantors. Bank can also have a Negative Lien on assets of the borrower such as Lien on Uncalled Capital.

d. **Sectorial Classification -** Bank also classifies advances in to Priority Sector and Non-Priority Sector, Inland/Foreign, etc.

e. **Stages of Advances -** Every advance under audit would have following stages -
   i) Credit Appraisal,
   ii) Sanctioning and disbursement,
   iii) Review, Monitoring, Supervision and Inspection,
   iv) Renewal, Enhancement, Rescheduling, Call back.

f. **Result of monitoring & supervision -** Effective system of scrutiny of data should result in renewal or enhancement or rescheduling or reduction of D.P. or cancellation of limits. Obtaining additional security, bank confirmation and valuation of asset at periodical interval is also a part of monitoring of advances. Lodging of claim and initiation of legal action can also result from effective supervision and inspection of accounts.

Understanding advances would mean considering all the above aspects so as to effectively comment on the most important asset of the branch.

Security

The most significant part of audit of banking transactions would be to certify that all loans given by the bank are good and recoverable except for those considered as Non-Performing Assets. For this purpose, looking at security values of assets offered by borrower would be of supreme importance.

When auditor is looking at the security, he should see the following –

- Whether it is legally enforceable
- Whether it is in effective control of the bank
- Whether it is recently inspected.
- Whether valuation of security is realistic and current
- Whether security covers value of advance

Documents to be Examined by the Auditor

Checking of documentation is one of the key areas in audit of advances. Actual documentation defers from bank to bank, but it generally depends on Legal Status, Government Recognised Status, and purpose of loan and Security.

A representative list of the documents/papers/reports the scrutiny of which is required to be done by the auditor while checking any file on advances, can be made as follows -

a) **Documents as submitted by borrower -** Project Report, Financial Statements, Address Proof, PAN, Business Registration under Excise/VAT/Service Tax, Industrial License, formation documents, etc.
b) **Documents to be obtained by bank -** Mortgage Deed, Valuation Report, Registration of Charges with ROC, Invoices, and Receipts, etc.
c) **Documents prepared by bank –** Appraisal Form, Sanction Letter, Demand Promissory Note, etc.
d) **Documents to be collected from third party by bank –** Credit Report/ Confidential Report, Insurance, Lien Marking by RTO/ Post Office, Direct confirmation of Dealership Agreement, etc.

The auditor would find several documentation defects such as blank/ incomplete/inadequate documents, insufficient stamping, certificates from professionals such as CA/Architect not obtained, non registration of charges, disbursement without mortgage, etc. The auditor will be required to take appropriate view about the risk of documents being invalid in court of law and consequent loss to the bank.

Observations on Various Types of Advances

The auditor will make several observations on monitoring of advances including non submission of stock statements, inadequate insurance/drawing power/turnover, diversion of funds to associate concerns, frequent overdrawing, etc. There can be hundreds of comments on the individual loan sanction some of which can be very serious. Auditor will have to take appropriate view about the safety of the amount advanced by the bank.

Computerised Enviournment

The Banks are working under environment of Core Banking Solutions. The auditor will have to understand the software, read the report of system auditor to decide whether the data can be depended upon, whether all reports signed by the auditor are through the system only. The exception reports generated by the system need to be carefully examined by the auditor.

Provisioning Norms

On all loans of the bank, the income is accounted only when actually realised, even though the bank follows the accrual system of accounting. RBI guidelines on Asset Classification, Income Recognition and Provisioning need to be studied in detailed by the auditor. Any major errors therein would substantially change the result of the branch and auditor would be held liable for the same.

Reports and Certificates

The auditor will be required to give his overall impression on branch working in Long Form Audit Report. The tax audit report, various certificates for capital adequacy, NPA, Classification of Advance, Comments on Ghosh Jillani Report, PMRY, Liquidity Ratio etc. are also required to be issued. In addition, the main audit report with certified final accounts of the branch will be given by the auditor.

Conclusion

Banking Industry is currently passing through major upheaval. The audit of bank has now become a specialised field of work for the Chartered Accountants. Extensive study of the procedures to be followed and regulations to be complied by the bank are prerequisites for carrying out the audit function most diligently and effectively. ■

Audit of Treasury Operations in Banks

Treasury operations in banks over the past years have become increasingly complex with sophistication of products, challenges of external environment, increasing dependence on automation and heightened regulatory focus. Accordingly, the audit of treasury operations is critical and requires combination of skilled/ knowledgeable team with sufficient experience, understanding of technology, risk management, bank's business and treasury operations and products. As a result, a typical treasury audit team should comprise members with appropriate background who need to work cohesively to ensure successful completion of an audit. The starting point of a successful completion is obtaining an understanding of the role of the treasury function. This article focuses on roles and responsibilities of treasury function, a typical organisational structure, some of the general products offered, risk management aspects and audit approach.


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(I) Role of Treasury Function

The activities of a bank's treasury function are generally more complex than would be for most other banking operations. Treasury function of a bank is not restricted to repository of funds. In fact, the treasury function covers a wide array of business operations and performs a number of roles:

- Funding - in order to provide access to funds for other activities within the bank and manage the bank's cash flows e.g. borrowing/ lending in the inter bank money market;
- Trading - acting on behalf of customers who are either speculating or hedging their own business risks, other departments within the bank and on their own account for speculative gain and/ or risk management e.g. trading/ entering into derivative contracts, trading in government securities/ corporate bonds;
- Risk management - using financial instruments to manage the business risks of the bank such as liquidity, foreign exchange and interest rate risk e.g. interest rate swaps, currency swaps, options, etc;
- Compliance with regulatory maintenance of reserves such as Cash Reserve Ratio (CRR)/ Statutory Liquidity Ratio (SLR).

One of the key contributors to the success of a bank is the strength of the internal control system of the treasury department. Some of the key characteristics associated with a bank's treasury department are as follows:

- Treasury operations involves dealing in **large volume of transactions** relating to purchase and sale of securities, foreign exchange and derivative products;

- There is **significant dependence on technology** for trading, settlement, valuation and monitoring of risks;
- Treasury teams have **specialised expertise and experience** in trading, risk management and monitoring, product structuring and accounting.

Trading activities require appropriate segregation of responsibilities to provide reasonable assurance that all trades transacted will be duly authorised, recorded in the accounting records accurately, and properly settled. The traders, who both commit the bank to the exchange and authorise (to their trading limits) could well misappropriate the bank's assets if they could control settlement of their deals. Similarly, were those individuals who effect settlement also empowered to instruct and accounts department for settlement, they would be in a position to misdirect payments and prevent detection of their having done so. Thus, the minimal segregation of duties any trading operation should exhibit are that the following functions be segregated:

- Trading;
- Effecting settlement;
- Accounting for trades and settlements (including counterparty confirmation and reconciling activity in cash and custodial accounts to the accounting records).

Typically, an ideal structure of the bank's treasury function in terms of implementing best practice from a control environment standpoint is given below:

- Front Office - trade execution
- Middle Office –risk monitoring and management
- Back Office – settlements and accounting

Further, the treasury front office has specialised desks devoted to buying and selling interest bearing securities (Fixed Income or Money Market desk), foreign exchange and derivatives (Foreign Exchange and Derivatives desk) and shares (Capital Markets or Equities desk).

In addition, the Treasury function may also have a Proprietary Trading desk that conducts trading activities for the bank's own account and capital, an Asset Liability Management (ALM) desk that manages the risk of interest rate mismatch and liquidity; and a Transfer Pricing or Pooling function that prices liquidity for business lines (the liability and asset sales teams) within the bank.

(II) Products

A bank's treasury operations involve dealing in various products, either for proprietary trading or on behalf of customers. These products are transacted through a Stock or Commodity Exchange, or Over the Counter (OTC).

A unique feature of banks' investments is that a large proportion of the investments are made in pursuance of the requirement to maintain a certain minimum level of 'liquid assets' as required under statute. Further, the directions issued by the Reserve Bank of India (RBI) also affect the quantum of investments, the nature of instruments/ products in which investments are made, and the extent of investment in a particular type of instrument/ product or in a particular company/group of companies.

Some of the common instruments in which investments are made by a bank include the following:

- Securities of the Central and State Governments and other approved securities;
- Shares (both equity as well as preference);
- Debentures and bonds;
- Interest rate and foreign exchange derivatives – forwards, swaps and options; and
- Other investments such as commercial papers, Certificate of Deposits, Security Receipts, Pass Through Certificates, units of mutual funds, venture capital funds and real estate funds.

(III) Risk Management Aspects

Bank's management and Board of Directors are highly sensitive to treasury risks, as they arise out of the high leverage to treasury business. Management of the bank is also concerned since large size transactions are done at the sole discretion of the dealers in treasury. Typically, a bank should have a dedicated team which would manage risks arising from treasury operations and establish policies and tools to monitor performance and exceptions. Some of the key risks which impact treasury operations are:

- Interest rate risk;
- Liquidity risk;
- Foreign exchange risk;
- Counterparty/Credit risk.

"Trading activities require appropriate segregation of responsibilities to provide reasonable assurance that all trades transacted will be duly authorised, recorded in the accounting records accurately, and properly settled. The traders, who both commit the bank to the exchange and authorise (to their trading limits) could well misappropriate the bank's assets if they could control settlement of their deals. Similarly, were those individuals who effect settlement also empowered to instruct and accounts department for settlement, they would be in a position to misdirect payments and prevent detection of their having done so."

A bank uses a combination of the following tools to measure these risks:

- Duration gap analysis;
- Simulations;
- Value at Risk (VAR) based methodology;
- Convexity;
- Stress testing;
- Back testing;
- Net overnight Open Position Limits;
- Stop Loss limits.

Product Control

The product structures offered by the treasury function of a bank to its clients need to be tailored to comply with regulatory guidelines and suit the needs of the client. Typically, a separate team within the treasury function known as 'Product Control' plays this role and is involved in devising product structures, formulating valuation models/parameters for these products, monitoring volatility in the daily profit and loss, and obtaining explanations from front office for significant variances. Generally, a Product Paper/ Note is prepared by Product Control highlighting key features of the product structure and related accounting aspects, and approval of senior management is sought prior to launching the product.

The audit procedures over treasury operations should include inquiry with Product Control on new product structures introduced during the period, review of product papers/ notes and verifying compliance with regulatory and accounting guidance, if available.

"Key elements involved in understanding the framework of the treasury function include assessment of adequacy and appropriateness of the set-up and role of the front office, mid-office and back office, appropriateness and adequacy of reporting structure, appropriateness of delegation of authority and segregation of duties and understanding operations which are centralised and decentralised within the bank."

(IV) Audit Approach

The following could be a few of the important considerations which should be considered while planning and executing an audit of treasury operations:

(A) Understanding the Treasury Function

Prior to commencing an audit of treasury operations of a bank, it is critical to obtain an understanding of the treasury function, in particular:

- Understanding the Framework

Key elements involved in understanding the framework of the treasury function include assessment of adequacy and appropriateness of the set-up and role of the front office, mid-office and back office, appropriateness and adequacy of reporting structure, appropriateness of delegation of authority and segregation of duties and understanding operations which are centralised and decentralised within the bank.

- Understanding the Investment Portfolio

An auditor should understand:

- the extent of funds deployed by the bank in various treasury products such as government securities, equity shares, foreign exchange products, derivatives, etc.;
- investment strategy of the investment committee and treasurer and correlate it with market environment.

(B) Understanding of Investment Policy

The functioning of the treasury operations is driven by policies and procedures formulated by senior management of the bank. It is of paramount priority for a bank to frame a suitable investment policy to ensure that treasury operations are conducted in accordance with regulatory guidelines, investment strategy of the bank, robust internal control framework and sound business practices. Further, the RBI has also mandated every bank to frame a suitable investment policy and has provided guidelines which need to be incorporated in the investment policy of a bank.

In addition to obtaining an understanding of the investment policy, an auditor should

- assess the appropriateness and adequacy of the policy with RBI requirements;
- understand the process for review and renewal of the policy, with changing external environment and regulatory requirements; and
- understand the process of dissemination of the policy to the employees and imparting training.

(C) Understanding the process and internal controls surrounding capturing/recording of transactions

One of the prime objectives of auditing the treasury operations in a bank is to understand the process and internal controls surrounding capturing/ recording of transactions. A deal initiated by the front office passes through a series of processes and control checks before it gets recorded in the financial ledger of the bank. Some of key controls surrounding the capturing/recording of transactions which would enable an auditor obtain sufficient and appropriate audit evidence over the audit objective are :

1. Front Office (FO)

a. Limit monitoring: Most banks establish a credit line for each of the counterparties with whom the bank trades regularly to control the risk that counterparty will be able to meet the commitment relating to delivering securities purchased or paying cash for securities sold. An auditor should check the controls to ensure that the limits are regularly reviewed taking into account the counterparties' credit standing.

b. Deal ticket: Whenever a trade is made, some form of transaction ticket (generally called a deal ticket) is prepared, showing all particulars of the transaction. This ticket is sequentially numbered and usually requires approval by a second party, such as the chief trader. An auditor should check whether deal tickets are sequentially numbered, the sequence is accounted for on a daily basis, controls over alteration of deal tickets, and that missing deal tickets are logged and investigated.

c. Suitability and Appropriateness of underlying documentation: For derivative deals executed by the bank with counterparties, the RBI has issued directives on the suitability and appropriateness of underlying documentation. With increased regulatory focus in this area and current derivative market, an auditor should verify the underlying documentation for such deals.

2. Back Office (BO)

a. Confirmation of trades: Exchange of written confirmations between the parties forms a vital part of the internal control of treasury function. This control should be kept completely separate from the dealers and is performed by the back office. An auditor should check the existence of the trade by reviewing the process of incoming and outgoing confirmations. Other methods of validating the existence of a trade include Voice Recording Systems (VCR), dealer conversation slips and review of nostro balances for cash inflow/outflow on trades.

b. Reconciliation of front office and back office records: There may be instances of delay between the execution of the trade by the front office and recording by the back office. Review by an auditor of day end reconciliations between FO and BO systems is crucial to ensure completeness of trades.

c. Settlement of trades: Once a trade is affected by the front office on trade date, automated entries impacting nostro accounts are passed on the settlement date. An auditor should examine whether the settlement is done through appropriate networks – CCIL/ RTGS/SWIFT networks. Rejection of deals should be reviewed carefully as it may indicate incorrect deal entry. Further, the auditor should check the adequacy and appropriateness of system controls over auto generation of entries on settlement date and intimations sent to the customer on settlement of the trade.

3. Accounting

In most cases, the system infrastructure and reporting requirements determine accounting of a transaction. Various phases are involved in accounting of a transaction and hence it is important for an auditor to obtain a complete understanding of the scheme of accounting from the front office system to the general ledger. Key areas where audit procedures should be performed are:

a. The accounting guidance for treasury transactions undertaken by a bank is largely governed by the accounting principles laid down by RBI. The RBI has prescribed prudential norms relating to classification, valuation, provisioning and presentation of investments. Further, accounting guidance has been issued for specific products e.g. accounting for Repo and Reverse Repo transactions. An auditor should ensure that guidelines for accounting and presentation in the financial statements have been complied with by the bank.

b. Further, in addition to verifying compliance with the RBI guidelines on accounting aspects, an auditor should verify, in detail, the valuation of securities, foreign exchange and derivative products. Key audit procedures surrounding the valuation would include:

- Obtaining an understanding of the bank's valuation policy and ensuring compliance with RBI guidelines and bank's accounting policy;
- Verifying the appropriateness of the inputs used for valuation (such as yields, market quotes, etc), and source from where inputs are obtained;
- In case a valuation model is used for valuing complex derivative products, obtaining an understanding of the process implemented by the bank to validate these models and to corroborate model outputs with market information.

c. Examination of control/suspense accounts which are used for parking or routing transactions. Understanding the nature of the account, ageing of unreconciled entries and balance sheet classification are some of the important procedures which should be performed by the auditor.

d. An auditor should also review the Nostro and Vostro reconciliations, verify ageing of unreconciled balances, provisioning policy of unreconciled debit balances and management review process.

4. Regulatory

a. As mentioned earlier, the RBI has issued directives which lays down the products which can be transacted by a bank. Further, the RBI has also prescribed exposure norms for certain category of investments. For example, investment of shares in any company is restricted to an amount not exceeding 30 per cent of the paid-up share capital of that company or 30 per cent of its own paid-up share capital and reserves, whichever is less, except as provided in sub-section (1) of Section 19 of the Act.

b. Further, every bank is required to maintain Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) based on guidance provided by the RBI from time to time.

The treasury team plays an important role in ensuring compliance with the regulatory requirement as well as reporting regulatory returns to the RBI. The auditor should verify compliance with the regulatory requirements and report breaches to the management and the regulator through the financial statements, statutory certificates and Long Form Audit Report (LFAR).

5. Information Technology (IT)

One of key contributors to a successful functioning of a treasury operation in a bank is the existence of a robust information system platform. In today's environment, all banks have embarked upon large scale computerisation, which has resulted in changes in the processing and storage of information and affects the organisation and procedures employed by the bank to achieve adequate internal control. Hence, it is imperative for an auditor to perform audit procedures such as understanding of the IT control environment, systems (internal/external) used for processing data, flow of data from various systems to general ledger, IT application level controls (access controls, password controls) established by management, etc. in order to archive the desired audit objective.

> **The accounting guidance for treasury transactions undertaken by a bank is largely governed by the accounting principles laid down by RBI. The RBI has prescribed prudential norms relating to classification, valuation, provisioning and presentation of investments. Further, accounting guidance has been issued for specific products e.g. accounting for Repo and Reverse Repo transactions. An auditor should ensure that guidelines for accounting and presentation in the financial statements have been complied with by the bank.**

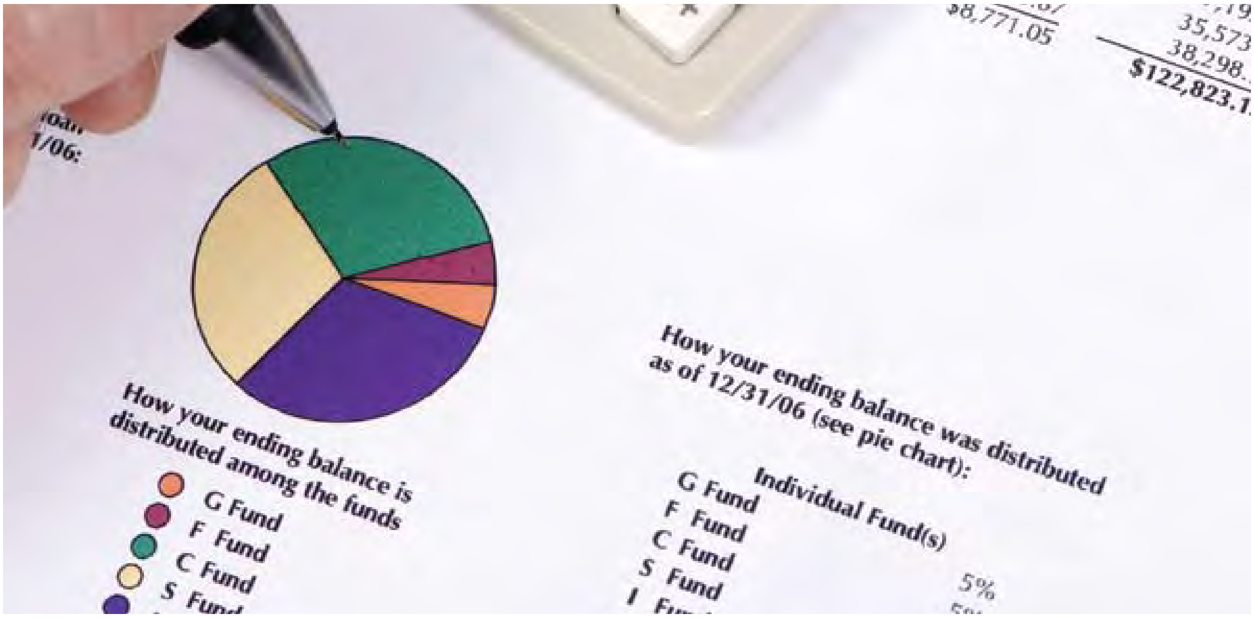
(V) Conclusion

Given the significant volume of transactions done by a treasury function and the IT intensive approach followed from product booking to recording, settlement and accounting, the auditor has to adopt a risk based approach to his audit of the treasury operations covering a combination of test of controls, analytical procedures and test of details.

The key to a successful audit begins with understanding of the treasury function. Thereafter the critical success factors for an efficient and effective audit are:

- Involvement of IT experts in the audit approach;
- Deploying the right resources with requisite knowledge and experience;
- Focus on regulatory requirements prescribed by the RBI. ■

Verification of Advances - Funded & Non-Funded



Generally, the business profile of any branch of a bank comprises two major activities – acceptance of deposits from and granting of advances to its customers. In a Balance Sheet audit conducted by Statutory Branch Auditors, verification and classification of various types of advances granted is one of the most important components of audit of bank branches. Before commencement of audit, it is necessary that the auditor and his staff are well versed with the various laws applicable to the bank and its customers. While knowledge of The Banking Regulation Act, 1949 and The Reserve Bank of India Act, 1934 is vital, the auditor must not lose sight of various other allied laws such as FEMA, taxation laws including service tax rules and various commercial laws including the Stamp Act. For instance, it should be borne in mind that for the purpose of stamping of documents, the branch has to follow the law of the place where the document is executed and not where the registered office of the bank is situated, implying that different branches of the same bank have to follow different set of rules for stamping, as applicable to the state where document is executed. This article focuses on audit of advances.

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The auditor should acquaint himself with the contents of all relevant RBI circulars, before commencing the audit. More than 64 Master Circulars have been issued on 1st July, 2010 and are available on their site www.rbi.org.in.

Auditing of Advances

The major accounting policies and rules that the bank follows are given in the Annual Closing Guidelines and must be understood completely. If some of these guidelines are not in line with the Accounting Standards or other statutory guidelines prescribed, the guidelines, as given by the bank, should be followed and the fact about its deviation from the statutory guidelines should be given in the report.

Computerisation is no longer a rarity and the auditor should take full advantage of the same to generate various statements from the system. Some of the statements that could be generated by the system as on 31st March, 2011 are:

- facility-wise/party-wise list of

accounts outstanding, along with the outstanding balance. The aggregate total of these lists should first be tallied with the figure of total advances in the Trial Balance to ensure that none of such statements have been missed out;

- sanctioning powers of the branch officials and the higher authorities;
- list of accounts where the regular facility or the ad hoc facility is due for renewal, but has not been renewed, where stock/book debt statements are in arrears, where no insurance or inadequate insurance has been taken, where accounts are overdrawn beyond the sanction/DP (drawing power) limit, where stock audit is due, but has not been done, where inspection has not been carried out in the last three to six months;
- for CC (Cash Credit)/OD (Overdraft) accounts, month-wise details of debit and credit transactions (turnover);
- NPA (Non-Performing Assets) statements, as prepared by the branch.

Type of Facilities

The type of facilities extended by the Bank can be divided into the following broad categories

- Based on Funds – Funded – where actual money is given by the bank and Non-Funded – where only a guarantee or commitment or co-acceptance is given that a certain amount would be paid on the occurrence of certain unknown events, or an accepted bill would be honoured on presentation (Letter of Credit).
- Based on Geography – Inland and Export (Packing/Pre-shipment credit, Post-shipment credit).
- Based on Security – Secured and Unsecured. Secured is one which is granted against some security, while unsecured is one which is given against personal surety only. Secured can be further divided into hypothecation, pledge, mortgage, assignment, etc. The security could be tangible (goods) or intangible (bank/government guarantees).
- Based on Sector – Priority sector and Non-Priority sector. Priority sector is one in which persons with small means are engaged or which needs to be supported/encouraged by the government.

While it is essential to understand the types of facilities extended by banks such as funded v/s non funded (guarantees), secured v/s unsecured, for the priority sector v/s non priority sector, it is perhaps equally if not more important to understand the types of advances. Advances can be broadly classified into Demand/Term loan, Cash Credit, Overdraft and Bills Purchased/ Discounted.

Types of Advances

While it is essential to understand the types of facilities extended by banks such as funded v/s non funded (guarantees), secured v/s unsecured, for the priority sector v/s non priority sector, it is perhaps equally, if not more, important to understand the types of advances. Advances can be broadly classified into Demand/Term loan, Cash Credit, Overdraft and Bills Purchased/Discounted.

- **Demand/Term loan** – Such advance, though called "demand loan" is generally repayable in pre-determined instalments. If the repayment period exceeds 36 months, it is called Term loan.
- **Cash Credit (CC)** – This advance is generally granted against security of stocks/book debts without any stipulation for repayment, but is required to be renewed every year. When a borrower is allowed to draw beyond his sanctioned limit or drawing power limit, the said amount is called "Temporary Overlimit – TOL". This TOL is secured by the existing securities against which the CC limit has been sanctioned.
- **Overdraft (OD)** – This advance is similar to CC, except that either no security is taken (termed as "Unsecured Overdraft") or the security is other than stock and book debts – e.g. FD receipts, NSC receipts, shares, LIC policies, etc. When such secured or unsecured overdraft is granted to the borrower to tide over temporary financial crisis, it is called "Temporary Overdraft – TOD". Unlike TOL, which is generally secured, TOD is generally unsecured.
- **Bills Purchased/Discounted** – When an advance against a sale bill is granted to the seller with the condition that the same should be repaid before the physical possession of the goods passes on to the buyer, it is called "Bills Purchased" facility; when an advance is granted against a sale bill, wherein the buyer has received the goods and has agreed to pay the amount therein within a stipulated period, such a facility is called "Bills Discounted".

Extent of Verification

The sample to be selected for test check will depend on existence and efficacy of the internal control procedures and the report given by various auditors especially the concurrent auditors in this regard. However, the auditor has to verify all large advances which is defined as one which constitutes more than 5 per cent of the aggregate outstanding advance of that branch or ₹2 crore, whichever is lower. Nevertheless, if NPAs are high or extensive problem is identified, percentage of check should be increased.

Reporting of Verification

Statutory auditors have to report about discrepancies noted in the Advances in two separate reports – one is the Statutory Audit Report for 'Major/ Critical Discrepancies' and the other is a detailed report in the Long Form Audit Report (LFAR) under para I-5 – Advances.

Stages of Verification

It is suggested that for verification of advances especially the large ones, all the stages of verification should be done by the same person to enable him to get a bird's eye view of the account.

The stages are detailed below:

i) **Credit appraisal and sanction:** Verification begins with review of documents. Typically the documents relating to the borrower which need to be reviewed would include: the borrowers financial statements, visit report by the branch, valuation report or proforma invoice for plant and machinery, vehicle, etc., credit appraisal report of the bank, papers showing net worth of the borrower and guarantors, confidential report from other banks, ratio analysis, etc. The auditor must review the sanction letter, check its veracity and verify that all terms are complied with. Another important aspect is to ensure that there is no violation of the prudential norms that are set by the RBI for individual and group borrowers (Refer Master Circular on Exposure Norms dated 1st July, 2010). Also, the auditor should verify if there have been any adverse comments on the borrower in previous statutory audit, internal inspection or concurrent audit reports.

"Review of operations is the most important stage in the verification of an advance. RBI has stated that any transaction susceptible to fraudulent transaction should be directly reported to RBI by the auditors. In this stage, the auditor has to do an intelligent scrutiny of the bank statement - debit/ credit entries, cash/cheque transactions, transfer from/ transfer to other accounts, frequent return of cheques, excessive withdrawals/deposit in cash, no/inadequate payments by cheque for purchases, no/ inadequate deposits by cheque for sale proceeds, turnover in the account disproportionate to the sale/turnover of the business, payment to persons or for items which do not concern this business or transfer of funds to personal accounts of the owner or sister concerns (diversion of funds), etc."

ii) **Disbursements:** At the time of disbursement, the borrower and guarantors have generally to execute the following documents – demand promissory note, necessary documents for hypothecation/ pledge /mortgage of the tangible security, letter of guarantee, etc; for temporary overdrafts and adhoc limits also, similar documents have to be executed; for enhancement of limits, supplementary documents have to be obtained. Further, most of the above documents have to be appropriately stamped. Depending on the type of advance, the borrower also has to provide various documents to the bank such as complete title documents for immovable property, NOC from cooperative housing society, etc. All immovable and movable property pledged to the bank has to be fully insured by the borrower and the policy assigned in the bank's favour. The "Terms and Conditions of Sanction" as indicated in the Sanction Letter need to be complied with, which the auditor must verify – for e.g. in case of housing loan, disbursement is to be done directly to the builder and receipts have to be obtained, borrower with previous loan needs to clear his old dues, borrower may have to introduce promoter's capital, branch has to inspect the borrower's unit, borrower to pay processing charges, etc.

iii) **Review of operations:** This is the most important stage in the verification of an advance. RBI has stated that any transaction susceptible to fraudulent transaction should be directly reported to RBI by the auditors. In this stage, the auditor has to do an intelligent scrutiny of the bank statement - debit/credit entries, cash/cheque transactions, transfer from/transfer to other accounts, frequent return of cheques, excessive withdrawals/deposit in cash, no/ inadequate payments by cheque for purchases, no/inadequate deposits by cheque for sale proceeds, turnover in the account disproportionate to the sale/ turnover of the business, payment to persons or for items which do not concern this business or transfer of funds to personal accounts of the owner or sister concerns (diversion of funds), etc.

The auditor should compare the movement of stock/book debts from month to month with the turnover in the account and the purchase and sale declared by the borrower in the stock statements; the stock and book debts declared in the statement for March of the previous year is to be compared with similar figures given in the audited or unaudited financial statements of the concern; many banks insist that the book debts statement should be certified by a chartered accountant on a quarterly basis; for non-submission of these statements, penalty is charged. It is also very necessary to verify whether the stock includes unpaid stock (represented by Sundry Creditors), stock under L/C, stock under Packing Credit, etc., since all these stocks being "unpaid stock" have to be deducted from the total stock considered for DP limit.

Sometimes, for the purpose of convenience or statutory requirements, the borrower is permitted by the bank to open current account near the factory premises to pay certain legal dues or salary or such expenses by the factory. In all such cases, the auditor should insist on verifying the statement of such accounts to ensure that only permissible transactions are routed through these accounts, since the possibility of use of such accounts to divert funds from the business cannot be ruled out.

In case of advance against exports, the bank has to inform to The Export Credit Guarantee Corporation (ECGC) to cover the said advance under its insurance scheme. Further, concessional rate of interest is charged to the borrower, provided certain conditions are fulfilled and the advance is liquidated within a specified time limit out of the export proceeds. If the same does not happen, the benefit of concessional rate of interest is withdrawn. The auditor should also note that it is compulsory for non-corporate entities, which have been sanctioned limits above ₹10 lakh, or any higher limit fixed by the bank, to get their accounts audited.

Lastly, in the process of verification, the auditor has to ensure that the balance of advance appearing in the individual ledgers is tallied with the general ledger balance – unreconciled balances outstanding for a long time are indicators of probable frauds.

iv) **Renewal/Enhancement/Reschedulement/Balance confirmation:** Generally, the advance is renewed at the end of one year, unless it is an adhoc advance or it is otherwise specified in the sanction letter; non-renewal can make the account an NPA. If the limits are re-aligned or enhanced, necessary documents are required to be executed to cover the re-aligned/ enhanced limits sanctioned. Even if the limit is sanctioned for a temporary period, proper stamping and execution of the necessary documents is mandatory. Where a project gets delayed or temporary crisis arise in the business of the borrower, the loan repayment amount and its time is rescheduled. The auditor has to ensure that all reschedulement/restructuring have been done in accordance with the norms prescribed by RBI. In order to avoid the documents from becoming time-barred, generally banks obtain a document called "Letter of acknowledgement of debt and securities" (LAD or ADS) or "Balance confirmation certificate". By virtue of these documents, the borrower and the guarantors confirm their liability, which is then considered as the date of incurring the liability for the purpose of Law of Limitation.

v) **Physical inspection of securities & valuation:** The auditor must examine the stock audit report to see if there are any adverse comments and whether they have been rectified. Special attention needs to be paid to non-moving stock and obsolete machinery reported to be included in the stock statements on the basis of which the DP limit is being determined.

"While an auditor is a watchdog and not a blood hound, one needs to take extra care in the course of the audit to rule out any irregularities in the loan and advances portfolio. While verifying loans and advances, the auditor has to take cognisance of certain indicators, which may lead to detection of irregular accounts/frauds. The branch has one or two major borrowers constituting more than 50 per cent to 75 per cent of the total advances of the branch, for whom the branch goes out of its way to give continuous overlimits or withdrawals against uncleared effects or does not pursue recovery of overdue bills or stock statements are not received in time and yet drawing power limit is continued or account is not renewed on due date or adhoc limits are not cleared and yet facility is continued, etc."

Demat papers, physical shares, TDR, NSC, etc. are usually in the custody of the bank and can be physically verified by the auditor. In case of loan against shares, the bank has to take out a periodical statement of valuation of shares pledged to check whether margin is still maintained. In case of NPA accounts, it is mandatory for the bank to obtain valuation report for all immovable properties/ machinery mortgaged/hypothecated to the bank at least once in three years.

vi) **Verification of charges due on the advances:** The auditor must at least test check the recovery of following charges which are recoverable on various advances at rates prescribed by the bank -

- charges for processing of loan, stamping, insurance etc.;

- interest/charges on the advance, including "withdrawals against effects" (WAE), temporary overlimit etc.;
- charges for late/non-submission of stock/QIS statements, non-renewal of limits, inspection, valuation, etc.

Indicators which could identify Irregular Accounts/ Frauds

While an auditor is a watchdog and not a blood hound, one needs to take extra care in the course of the audit to rule out any irregularities in the loan and advances portfolio. While verifying loans and advances, the auditor has to take cognisance of certain indicators, which may lead to detection of irregular accounts/frauds.

- The branch has one or two major borrowers constituting more than 50 per cent to 75 per cent of the total advances of the branch, for whom the branch goes out of its way to give continuous overlimits or withdrawals against uncleared effects or does not pursue recovery of overdue bills or stock statements are not received in time and yet drawing power limit is continued or account is not renewed on due date or adhoc limits are not cleared and yet facility is continued, etc.
- While verifying CC a/c, OD a/c and bills a/c, the following observations are made
  - account remains continuously overdrawn;
  - a number of cheques are bounced due to insufficient funds;
  - cheques deposited are not honoured and returned unpaid;
  - the account has been granted continuous TOL by the branch – for 20 to 25 days every month; moreover, at times, such TOLs have been granted by the Branch Manager without having the power to do so;
  - the 12 month's turnover in the account does not commensurate with the sale and purchase shown in 12 monthly stock statements or the statement of accounts submitted;
  - the realisation of bills purchased/bills discounted is not received on the due date and subsequently the same is cleared by debit to the borrower's CC/OD a/c;
  - as soon as the above bills are cleared, fresh bills are purchased/discounted;
  - the facility has not been renewed on the due date and the reason given is that the borrower has not submitted the necessary papers;
  - all overdue CC limits, OD limits, unrealised bills, unrealised interest are bundled together and the borrower is granted WCTL – Working Capital Term Loan to avoid the account becoming NPA. **Generally, such bullet loan is an indicator that the account is having problems**;
- for certain accounts, when papers are asked for, the branch is unduly slow in producing the same or makes a plea that the same have been sent to some authority and hence is unavailable at the branch or states that the same are not traceable;
- in case of certain accounts, the Branch Manager pleads not to put any adverse remark in the report and that he shall get it rectified after the audit is over.
- While verifying monthly/ quarterly stock statements submitted, the following observations are made
- generally stock statements are not submitted on time;
- the item-wise details of stock is not given and instead lump sum figures are shown without quantitative details;
- if item-wise details are given, a comparison of statements submitted over a period of time shows that the same stock is repeated over and over again with the same quantity and value;
- there is heavy "sundry creditors" indicating unpaid stock, but the said amount has not been deducted from the stock value, before determining the DP limit of the borrower;
- the stock statement includes certain items which have actually been financed by the branch under LC limit or Packing Credit limit or some other limits;

> **"While the general verification of funded and non-funded advances is done simultaneously, there are certain components of non-funded advances, which need to be looked into. RBI has issued a Master Circular dated 1st July, 2010 under the heading "Guarantees and Co-acceptances", which can act as a guiding parameter. Non-funded advances are called "Off Balance Sheet" items, as their value is not reflected in the Balance Sheet. They form the "Contingent Liability" items of the bank. However, for the purpose of keeping a control over these items, banks have a system of passing contra entries in its books of accounts at the branch level and hence these items get reflected on the liability as well as asset side of the Trial Balance."**

- there is a huge difference in the closing stock shown in the stock statement of 31st March of previous year and the audited/ unaudited accounts submitted subsequently or better still, the borrower does not submit the stock statement of March or the same is untraceable in the branch;
- the stock statement reflects an unusually high amount of "stock in transit" every month, which does not commensurate with the monthly purchases or the monthly turnover in the accounts;
- though mandated, the branch has not obtained the "stock audit report";
- the stock audit report has adverse comments, but the branch has not taken any corrective steps or the Branch Manager states that subsequently he has visited the unit and everything is rectified and regularised;
- the stock inspection done by the branch is superfluous and does not record the details of the stock verified – a few direct in-depth questions to the branch staff, who went for the concerned stock inspection would reveal the quality of the inspection done.

- While verifying monthly/quarterly book debts statements submitted, the following observations are made
  - book debts due for more than 90 days are not segregated, though the same is mandated in the Sanction letter;
  - a comparison of the last 10 to 12 months' statement reveals that there are a number of book debts, which probably are being shown for more than eight to ten months and may be bad debts or recovered, but not deducted from the statement;
- A comprehensive 10 to 12 months' analysis of monthly sales, purchase and stock as shown in the stock statements, the book debts, the turnover in the accounts and the audited financial statements may reveal that the stock statements submitted every month are highly inflated.
- Verification of other records at the branch
  - verification of stamping of the immovable property documents under ultra violet rays can reveal whether the document is genuine or a photocopy;
  - in immovable property loans, the branch has not obtained "search report" of the property from the Registrar's office, or the adverse comments in such report have been ignored;
  - the branch has not obtained NOC from the builder/society or such NOC has been personally brought by the borrower to the branch instead of the same being directly obtained by the branch from the builder/ society;
  - in case of loans to limited companies, details of previous charges have not been obtained or if any adverse observations have been made, the same are ignored – for e.g. the report shows that the borrower has borrowed from other banks without the knowledge/permission of the existing banker, old charges which were supposed to have been cleared have not been done indicating that old loans are still outstanding;
  - there is correspondence on record, which states that on the same immovable property, the borrower has obtained loans from more than one bank.
  - The branch has filed a suit against the borrower to recover the amount.

"Letter of Credit (LC) is a promise by a banker to honour the payments to be made by its customer (the buyer or importer) to the seller or exporter. This type of payment facility is generally used in international trade. In this type of facility, at the request of the buyer, his banker opens an LC, which is sent to the seller. Based on such LC, the seller despatches the goods and then sends the bills and other documents through his banker to the buyer's banker, which has opened the LC, to make payment of the bill."

Verification of Non-Funded Advances

While the general verification of funded and non-funded advances is done simultaneously, there are certain components of non-funded advances, which need to be looked into. RBI has issued a Master Circular dated 1st July, 2010 under the heading "Guarantees and Co-acceptances", which can act as a guiding parameter.

Non-funded advances are called "Off Balance Sheet" items, as their value is not reflected in the Balance Sheet. They form the "Contingent Liability" items of the bank. However, for the purpose of keeping a control over these items, banks have a system of passing contra entries in its books of accounts at the branch level and hence these items get reflected on the liability as well as asset side of the Trial Balance. However, while preparing the Balance Sheet of the bank as a whole, the value of these items are reflected in the "Notes to Accounts".

(i) Guarantees

a. Guarantees are of two types – financial guarantee, wherein the guarantor (the bank) promises to pay the stated amount to the beneficiary, if the person for whom the guarantee is given, fails to pay the same (also referred to as invoking the guarantee); performance guarantee, wherein the guarantor promises to pay the beneficiary a stated sum of amount, if the person for whom the guarantee is given, fails to perform, as expected, in a given period of time. Banks are generally discouraged from issuing performance guarantees.

b. A Guarantee transaction usually comprises of two independent, but related components – one is the guarantee issued by the banker (of the buyer) to the beneficiary (i.e. seller) and the other is a counter guarantee given by the buyer to his banker, who has issued the guarantee.

c. Generally, guarantees should not be issued on behalf of customers, who do not enjoy credit facilities with the bank.

d. Since Guarantees invoked could get converted into funded advance to a borrower, banks should not encourage borrowers to over extend their commitments solely on the basis of guarantees.

e. Guarantees could be for specific transaction (called specific guarantee) or it could be for multiple transactions within a specific time frame (called continuing guarantees). Guarantees should generally be for short durations; in any case, is should not have a maturity period of more than ten years.

f. Unsecured Guarantees to a particular borrower should generally not exceed 10 per cent of the total exposure.

g. Banks should also not concentrate its unsecured Guarantees to a particular borrower or a group.

h. Ghosh Committee has recommended certain precautions to be taken by banks while issuing Guarantees.

i. Guarantees are generally issued by keeping margins, either in the form of cash/term deposit or some other security.

j. In case of guarantees issued on behalf of share and stock brokers, RBI has advised that banks should obtain a minimum margin of 50 per cent (with 25 per cent being cash margin).

k. RBI has laid restrictions on guarantees of inter-company deposits/loans and inter-institutional guarantees.

l. In the above mentioned circular, RBI has also given extensive guidelines on issue of guarantees on behalf of exporters and importers.

(ii) Co-acceptance of bills

a. In this type of facility, the seller despatches the goods and raises the bill on the buyer. The buyer accepts the bill and then it is co-accepted by buyer's banker. The seller's banker then discounts this bill.

b. This type of facility is often used by customers to float accommodation bills (i.e. bills which are not supported by genuine sale and purchase of goods) and hence auditors should be careful while examining such bills.

(iii) Letter of Credit (LC)

a. Letter of Credit (LC) is a promise by a banker to honour the payments to be made by its customer (the buyer or importer) to the seller or exporter. This type of payment facility is generally used in international trade. In this type of facility, at the request of the buyer, his banker opens an LC, which is sent to the seller. Based on such LC, the seller despatches the goods and then sends the bills and other documents through his banker to the buyer's banker, which has opened the LC, to make payment of the bill.

b. The buyer then makes the payment and routes it through his banker to the seller's banker. In case the buyer fails to make the payment (also known as devolvement of LC), the buyer's banker, who has opened the LC, is liable to make the payment to the seller.

c. RBI has mandated banks not to discount bills drawn under LCs or otherwise for beneficiaries, who are not their regular clients.

Classification of Advances – Prudential Norms on Income Recognition & Asset Classification and Provisioning (Non-Performing Assets – NPA-Norms)

This is one of the most important aspects of verification of Advances, details of which have been provided under a separate chapter in this journal.

Conclusion

Above all, the auditor must be cognisant of RBI's norms on classification of advances and provision requirements and verify that the same are complied with and appropriate provisions made wherever necessary. ■

Verification of Advances with Special Reference to Income Recognition and Asset Classification Norms

This article attempts to cover, verification of advances with special reference to Income Recognition and Asset Classification (IRAC) norms, which are also known as Non-Performing Asset (NPA) norms and prudential norms. The article covers summary of key requirements points applicable based on Reserve Bank of India (RBI) Prudential norms except it does not cover norms on Restructuring of Advances by Banks and Agricultural Debt Waiver and Debt Relief Scheme and it also does not deal with other aspects of verification of advances.

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In Bank Audit, we as Auditor carry a lot of responsibilities as the banking sector directly deals in commodity called "Money" that too mainly public funds by way of deposits and secondly we have limited time to complete the bank – branch audit. In most of medium size branches, we receive appointment letter in the mid-March and we have to compete the audit by first week or second week of April.

Second reason of concern is that the banking sector is fraud prone and it again increases our responsibilities in carrying out bank branch audit. There have been many scams in banking sector. As per PTI report on 25th February, 2010, Frauds have cost banks ₹5,517 crore in last four fiscals. The highest loss was in fiscal 2008-2009 of ₹1,883 crore. As we read in media, in February 2010, one of the banks was imposed with penalty of ₹25 lakh for violating (RBI) directives on acquisition of immovable property, deletion of records in IT system, non-adherence to KYC and anti-money laundering norms, irregularities in the conduct of certain corporate group, etc. In 2009, we read instance of cash transactions of ₹640 crore between November 2006 to December 2008 in one bank account and in one such similar case transfer of funds overseas amounting to $110 million.

In bank audit, we need to plan very well so we are able to carry out audit effectively. There are various acts applicable in bank audit but we must be updated with RBI guidelines and requirements for banking sector. All related circulars are available on Reserve Bank of India's website i.e. www.rbi.org.in.

Verification of advances is one of the important aspects of bank audit. While doing verification of advances, impact of irregularities needs to be seen from point of view of its asset classification. Advances are classified based on RBI Guillotines. Originally RBI had health code system which was replaced by IRAC norms in 1992-1993. Now income recognition is made objective based on record of recovery.

Any irregularities having bearing on NPA (Non-Performing Asset) status of the advances needs to be examinied carefully. In other words while examining any advances; we need to check what will be the impact of irregularity in advance on its the NPA status. As per RBI circular, when asset ceases to generate income, it becomes NPA.

Reserve Bank of India every year issues Master circular for norms for classifications of Advances into various categories of NPA. This year like every year RBI has issued master circular on 1st July, 2010. Key points of the circular are summarised as under:

Type of facility	To be Classified as NPA if
Term Loan	Interest and/or installment remain overdue for more than 90 days.
Working Capital Finances (Over draft and Cash Credit)	If accounts remain out of order for more than 90 days. Out of order: An account should be treated as '**out of order**' if the outstanding balance remains continuously in excess of the sanctioned limit/ drawing power. In cases where the outstanding balance in the principal operating account is less than the sanctioned limit/drawing power, but there are no credits continuously for 90 days as on the date of Balance Sheet or credits are not enough to cover the interest debited during the same period, these accounts should be treated as '**out of order**'
Bills	The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted
Agricultural Advances	**Short duration crops** The installment of principal or interest thereon remains overdue for two crop seasons **Long duration crops** The installment of principal or interest thereon remains overdue for one crop season. **Natural calamities** Where natural calamities impair the repaying capacity of agricultural borrowers, banks may decide on their own as a relief measure conversion of the short-term production loan into a term loan or reschedulement of the repayment period; and the sanctioning of fresh short-term loan, subject to guidelines contained in RBI circular RPCD. No.PLFS.BC.6/ 05.04.02/ 2004-05 dated 1st July, 2005.
Liquidity Facilities	The amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitisation transaction undertaken in terms of guidelines on securitisation dated 1st February, 2006
Derivative Transactions,	The overdue receivables representing positive mark-to-market value of a derivative contract, if these remain unpaid for a period of 90 days from the specified due date for payment.
Banks should, classify an account as NPA only if the interest due and charged during any quarter is not serviced fully within 90 days from the end of the quarter.	

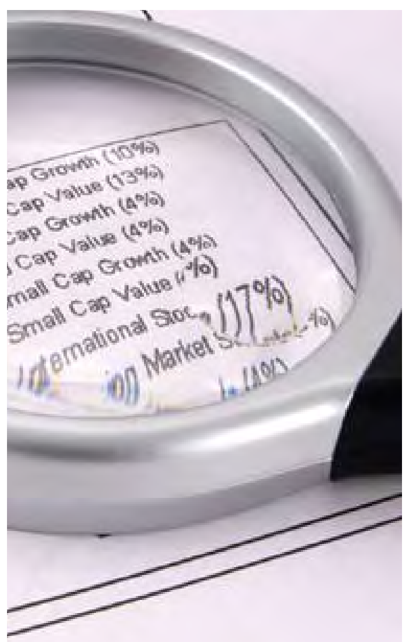
Further advances needs to be classified into categories like Standard, Sub-standard, Doubtful and loss Asset. Following are criteria for classifications of NPA

NPA Category	Criteria for classification	
Sub- Standard Asset	Which has remained NPA for a period less than or equal to 12 months. In such cases, the current net worth of the borrower/ guarantor or the current market value of the security charged is not enough to ensure recovery of the dues to the banks in full. In other words, such an asset will have well defined credit weaknesses that jeopardise the liquidation of the debt and are characterised by the distinct possibility that the banks will sustain some loss, if deficiencies are not corrected.	
Doubtful Asset	An asset would be classified as doubtful if it has remained in the substandard category for a period of 12 months. A loan classified as doubtful has all the weaknesses inherent in assets that were classified as sub standard, with the added characteristic that the weaknesses make collection or liquidation in full, – on the basis of currently known facts, conditions and values – highly questionable and improbable. For provisioning, Doubtful Assets are further classified as per age in doubtful category, in sub- categories generally called as D-1, D-2 and D-3.	
Loss Asset	A loss asset is one where loss has been identified by the bank or internal or external auditors or the RBI inspection but the amount has not been written off wholly. In other words, such an asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value.	
Accounts where there is erosion in the value of security/ frauds committed by borrowers	In respect of accounts where there are potential threats for recovery on account of erosion in the value of security or non-availability of security and existence of other factors such as frauds committed by borrowers **it will not be prudent that such accounts should go through various stages of asset classification**. In cases of such serious credit impairment the asset should be straightaway classified as doubtful or loss asset as appropriate:	
	Value	Classification to be done
	Less than 50 per cent Less than 10 per cent	Doubtful Asset Loss Asset – Full Provision

Internal Control Systems to Eliminate the Tendency to Delay or Postpone Identification of NPAs

Banks should establish appropriate internal systems to eliminate the tendency to delay or postpone the identification of NPAs, especially in respect of high value accounts. The banks may fix a minimum cut off point to decide what would constitute a high value account depending upon their respective business levels. The cut off point should be valid for the entire accounting year. Responsibility and validation levels for ensuring proper asset classification may be fixed by the banks. The system should ensure that doubts in asset classification due to any reason are settled through specified internal channels within one month from the date on which the account would have been classified as NPA as per extant

"Verification of advances is one of the important aspects of bank audit. While doing verification of advances, impact of irregularities needs to be seen from point of view of its asset classification. Advances are classified based on RBI Guillotines. Originally RBI had health code system which was replaced by IRAC norms in 1992-1993. Now income recognition is made objective based on record of recovery."



guidelines.

So in any case let's say advance was becoming NPA on 30th June, 2010 and there was a doubt about whether that advances needs to be classified as NPA or not? Any such doubt should be resolved by bank by July 2010.

Other issues in classifications of advances as NPA:

Accounts with temporary deficiencies	Banks should ensure that drawings in the working capital accounts are covered by the adequacy of current assets. Drawing power is required to be arrived at based on the stock statement which is current. However, considering the difficulties of large borrowers, stock statements relied upon by the banks for determining drawing power should not be older than three months.
Regular and ad hoc credit limits	Regular and ad hoc credit limits need to be reviewed/ regularised not later than three months from the due date/date of ad hoc sanction. In case of constraints such as non-availability of financial statements and other data from the borrowers, the branch should furnish evidence to show that renewal/review of credit limits is already on and would be completed soon. In any case, delay beyond six months is not considered desirable as a general discipline. Hence, an account where the regular/ ad- hoc credit limits have not been reviewed/renewed within 180 days from the due date/ date of ad hoc sanction will be treated as NPA.
Accounts regularised near about the balance sheet date	The asset classification of borrowal accounts where a solitary or a few credits are recorded before the balance sheet date should be handled with care and without scope for subjectivity. Where the account indicates inherent weakness on the basis of the data available, the account should be deemed as a NPA. In other genuine cases, the banks must furnish satisfactory evidence to the Statutory Auditors/Inspecting Officers about the manner of regularisation of the account to eliminate doubts on their performing status.
Loans with moratorium for payment of interest	In the case of bank finance given for industrial projects or for agricultural plantations, etc. where moratorium is available for payment of interest, payment of interest becomes 'due' only after the moratorium or gestation period is over. Therefore, such amounts of interest do not become overdue and hence do not become NPA, with reference to the date of debit of interest. They become overdue after due date for payment of interest, if uncollected. ii. In the case of housing loan or similar advances granted to staff members where interest is payable after recovery of principal, interest need not be considered as overdue from the first quarter onwards. Such loans/advances should be classified as NPA only when there is a default in repayment of installment of principal or payment of interest on the respective due dates. In my view, extension in moratorium period should not be allowed afterwards unless justified by strong convincing reason.
Government Guaranteed Advances	Central Government Guaranteed Advances The credit facilities backed by guarantee of the Central Government though overdue may be treated as NPA only when the Government repudiates its guarantee when invoked. This exemption from classification of Government guaranteed advances as NPA is not for the purpose of recognition of income. State Government guaranteed Advances State Government guaranteed advances and investments in State Government guaranteed securities would attract asset classification and provisioning norms if interest and/or principal or any other amount due to the bank remains overdue for more than 90 days

Other Points to be considered in classification of an advances as NPA:

- Asset Classification needs to be done borrower-wise and not facility-wise, hence even if one small facility is NPA large borrower's all accounts will become NPA
- Consortium Advances : Asset classification of accounts under consortium should be based on the **record of recovery of the individual member banks** and other aspects having a bearing on the recoverability of the advances
- Advances against Term Deposits, NSCs, KVP/IVP, etc

  Advances against term deposits, NSCs eligible for surrender, IVPs, KVPs and life policies need not be treated as NPAs, provided adequate margin is available in the accounts.

  Here plain reading of the RBI circular says advance against life policies need not be treated as NPA. In my personal views intention must be to exempt only advances against traditional plans issued by Life Insurance Corporation of India and not advances against life policies such as Unit Linked Investment Plan (ULIP) or which are issued by private companies may not be covered by this exemption.
- Advances against gold ornaments, government securities and all other securities are not covered the NPA classification exemption.
- Valuation of Security for provisioning purposes

  With a view to bringing down divergence arising out of difference in assessment of the value of security, in cases of NPAs with balance of ₹5 crore and above stock audit at annual intervals by external agencies Collaterals such as immovable properties charged in favour of the bank should be got valued once in three years by valuers appointed as per the guidelines approved by the Board of Directors.

Provisioning Norms

Standard Assets	(a) direct advances to agricultural and SME sectors at 0.25 per cent; (b) advances to Commercial Real Estate (CRE) Sector at 1.00 per cent; (c) all other loans and advances not included in (a) and (b) above at 0.40 per cent
Sub-standard Assets	Secured exposure: 10 per cent on outstanding balance Unsecured exposures for escrow accounts available in respect of infrastructure lending, infrastructure loan accounts: 15 per cent on outstanding balance Other unsecured exposures: 20 per cent on outstanding balance
Doubtful Assets	Unsecured Portion : 100 per cent Secured Portion : Period for which the advance has remained in 'doubtful' category — Provision requirement (%) Up to one year –D1 — 20 One to three years-D2 — 30 More than three years –D3 — 100
Loss Assets	100 per cent

Income Recognition

The policy of income recognition has to be objective and based on the record of recovery. Internationally income from NPA is not recognised on accrual basis but is booked as income only when it is actually received. Therefore, the banks should not charge and take to income account interest on any NPA.

However, interest on advances against term deposits, NSCs, IVPs, KVPs and Life policies may be taken to income account on the due date, provided adequate margin is available in the accounts.

Fees and commissions earned by the banks as a result of renegotiations or rescheduling of outstanding debts should be recognised on an accrual basis over the period of time covered by the renegotiated or rescheduled extension of credit.

If Government guaranteed advances become NPA, the interest on such advances should not be taken to income account unless the interest has been realised.

Reversal of income

If any advance, including bills purchased and discounted, becomes NPA, the entire interest accrued and credited to income account in the past periods, should be reversed if the same is not realised. **This will apply to Government guaranteed accounts also**.

In respect of NPAs, fees, commission and similar income that have accrued should cease to accrue in the current period and should be reversed with respect to past periods, if uncollected.

Leased Assets

The *finance charge* component of finance income [as defined in 'AS 19 Leases' issued by the Council of the Institute of Chartered Accountants of India (ICAI)] on the leased asset which has accrued and was credited to income account before the asset became nonperforming, and remaining unrealised, should be reversed or provided for in the current accounting period.

> **"The policy of income recognition has to be objective and based on the record of recovery. Internationally income from non-performing assets (NPA) is not recognised on accrual basis but is booked as income only when it is actually received. Therefore, the banks should not charge and take to income account interest on any NPA. However, interest on advances against term deposits, NSCs, IVPs, KVPs and Life policies may be taken to income account on the due date, provided adequate margin is available in the accounts."**

> **"In case of NPA, the auditor should carefully examine security as it will change the amount of provisioning if advances are found to be unsecured. The advance becoming NPA is important date and needs to be examined whether the same is correctly determined as age of NPA determines its provisioning amounts. The restructuring of advances should not be repeated restructuring."**

Appropriation of Recovery in NPAs

Interest realised on NPAs may be taken to income account provided the credits in the accounts towards interest are not out of fresh/additional credit facilities sanctioned to the borrower concerned.

In the absence of a clear agreement between the bank and the borrower for the purpose of appropriation of recoveries in NPAs (i.e. towards principal or interest due), banks should adopt an accounting principle and exercise the right of appropriation of recoveries in a uniform and consistent manner.

Certain Practical Points

- In case of NPA, the auditor should carefully examine security as it will change the amount of provisioning if advances are found to be unsecured.
- The advance becoming NPA is important date and needs to be examined whether the same is correctly determined as age of NPA determines its provisioning amounts.

- The restructuring of advances should not be repeated restructuring.
- There are various ever-greening techniques being resorted to for not classifying advance as NPA, so we have to see the advances are being paid off from genuine sources and not by granting fresh advances in any way.

Conclusion

As classification, provisioning and income recognition is governed by RBI norms, we have to carry out audit of advances based on latest RBI norms and directives. The NPA norms have improved overall quality of advances. Looking at reported frauds, we need to be very vigilant in verifying correct application of NPA norms. ■

Bank Branch Audit in CBS Environment

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Most of the banks even co-operative banks have moved to a Core Banking System (CBS) environment. What was earlier the prerogative of the private sector bank and large public sector banks, is filtered down to the large co-operative banks, district level co-operative banks and to even small co-operative banks. Sometimes even the mere payment clearing system of the clearing house becomes a trigger move to a CBS environment to ensure that the clearing house electronic transfer automatically reaches the account holder. All persons exposed to the branch like its depositors, borrowers and even the auditors are affected by this. This article focuses on bank branch audit in CBS environment.

Before we discuss the impact of CBS on the bank, we need to define and understand the concept of Core Banking.

Core Banking

Before listing what a branch auditor should do in the CBS environment, it will be in a better perspective to understand the environment itself. In simple terms, instead of a server at each branch, there is one server for all the branches. The place where the server is kept is called the Data Centre (DC). In case of failure of this server, there is a

Back-up site and if the site is in another location (another city) preferably in a different seismic zone, it is called the Disaster Recovery Centre (DRC). It is not uncommon to see the DRC to be located in a different continent in case of multinational banks. A lot of care is therefore taken at the Data Centre but that being not in the scope of the Branch Auditor, shall not be a subject matter of discussion here. Graphically, a CBS environment is shown in fig 1. Apart from the server, the other difference is that the branches are linked by some form of networking. Traditionally, the networking was by way of leased lines as the primary network. In case this network failed, the other back-up network was dial up ISDN where the connection was automatically dialed up. Later other modes such as wireless (Radio frequency), VSAT (Very Small Aperture Terminal) and VPN (Virtual Private Network over the Internet) came into popularity especially because the leased line and ISDN usually was provided by the same service provider and if they had an exchange problem, both lines would be down.

Branch Statutory Auditor and System Auditor of DC and Branch

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"The Branch auditor is not expected to be a technical expert to understand the system or the software. However, the fact remains that most of the aspects of operation and thus, the audit are done through the computer. Since the CBS is the nervous network of the Bank, even the branch auditor can ill afford to ignore the existence of the system. On the contrary, if the auditor is able to use the system, he/she will be able to improve his own efficiency."

system or the software. However, the fact remains that most of the aspects of operation and thus, the audit are done through the computer. Since the CBS is the nervous network of the Bank, even the branch auditor can ill afford to ignore the existence of the system. On the contrary, if the auditor is able to use the system, he/she will be able to improve his own efficiency. However, if the Branch has been subjected to a Systems audit, he should be perusing the report to gain insight. However, he must ensure that any reliance of this report is only as per the policy of ICAI on dependence of work done by other Chartered Accountant because some system audits are known to be executed by non-CA firms also.

Some of the issues of the system audit bearing an impact on the Statutory Branch Auditor are:

1. **Non satisfactory allocation of User ID:** The allocation of rights to use the nodes at the branch is a formality that the branch manager follows with the Data Centre. This is needed for the new as well as transferred employees and the auditors. In case the procedure is described as high risk where the Data Centre is by passed and branch can use 'spare generalised' ID (e.g. ID termed as accountant/ manager/auditor and not employee number or initials) then controls seem to be lax enough to invite exploitation. In such cases, it is difficult to identify the person who has made or authorised a transaction and this is a high risk fraud potential.
2. **Data Corruption or high frequency restoration of data:** Restoration of data is a once in a blue moon situation whose repetition spells suspicion. You may be offered explanation of faulty or underpowered hardware but this should be solved when the cause is first identified. Apart from the genuine cases, such events are often used to 'cover up' teaming and lading transactions where

advances are given off the records to some party in connivance with the staff. At the time of re-entering the transactions either on the next day or the later, an extra voucher is quietly slipped in, due to which the advance is hidden.

3. **Continued vendor deep support long after migration/ live operation:** In genuine cases of non-satisfaction of the user Bank, the application system vendor continues to 'trouble shoot' the transaction or even daily routines. This is opposed to the enhancement in application where new areas are covered by him. Support for normal routines, even after the operations are live are *abnormal situations* beyond the teething problems. Apart from the discomfort of a non-authorised person involved in the daily operations, it is not uncommon to find transactions being posted using the ID of the authorised users. This is most dangerous which is akin to making the signature of another person, which in the non computerised world is indisputably called 'fraud'.

Operationally, the branch thus ends up with the following status for main functions in the CBS environment.

- Day-begin already done: This is done by the data centre virtually minutes after the end of day operation. They do not normally wait for the dawn of the opening hours of the next day for various reasons like ATM operations are on-line for 24 hours. Therefore, the branch staff does a re-check on network to be done before service hours only to ensure that the connections are up and the application is running.
- Apart from the initial user registration at the time of installation of the application software, new user application forwarded by branch manager (also transfers, retirements, resignations) to the Data Centre where the officers of the Data Centre register new or suspend the users.
- End of Day hand over by branch on a daily basis. Rest of the activity like back-up and any other periodic database maintenance is done by the Data Centre officers which were hitherto done by the Branch in the TBM environment.
- Exception and other reports are normally generated at the branches. Head Office returns, however, are generated at the Data Centre.

Using the System as a Tool by Branch Auditor

It is normal for the Branch Auditor to claim access to the system. Many applications also have a provision for a user level identified as 'auditor'. Wherever this is available, normally, only report reading functions are permitted and no administrative or even data entry rights are given. Wherever this is not available, the branch auditor must specify that data entry and administrative rights such as permitting of a new user should be disallowed. Such a voluntary action will do more to protect the auditor.

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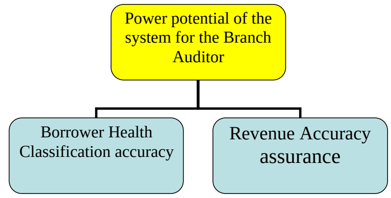
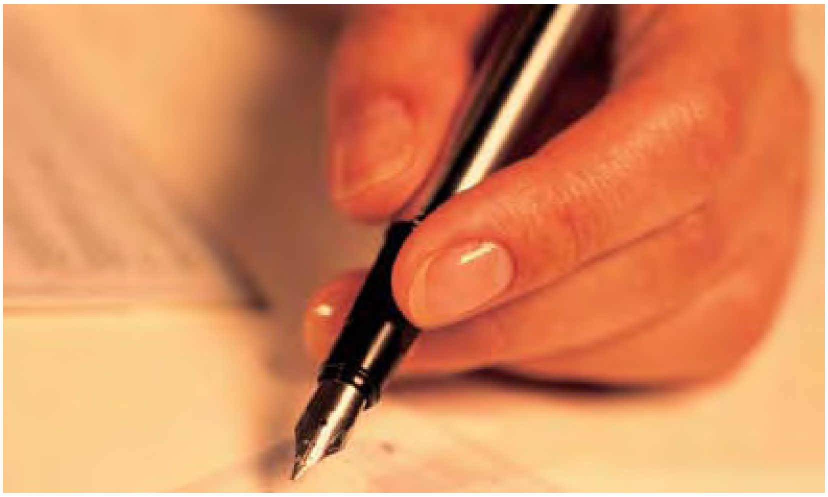
Use of the system by the branch auditor can be classified into the following:



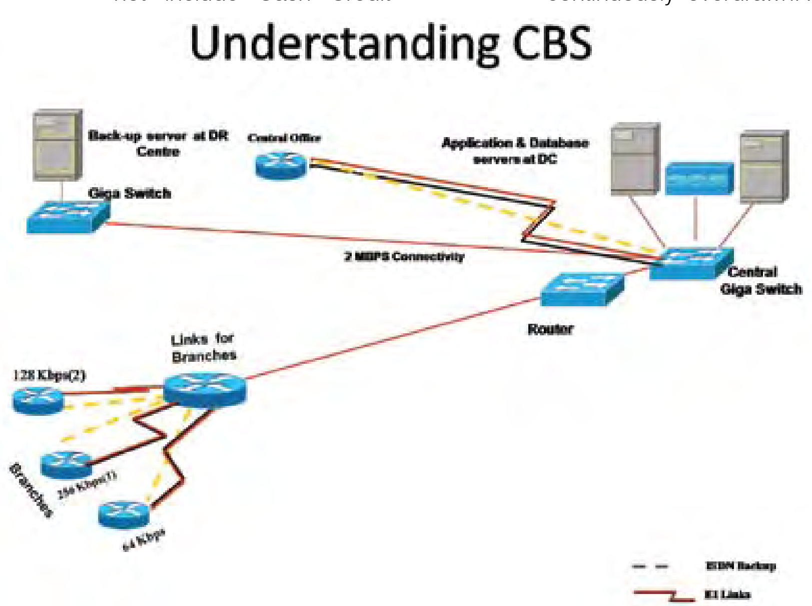
- **Borrower Health Classification Accuracy:** Accurate classification of health of the borrowers of the branch has become the most important aspect of Statutory Branch Audit. This has serious implications on the Balance Sheet of the bank in terms of provisioning. Many application systems have a special routine or report or even separate software which does the work of classification of borrowers. Blind acceptance of such report will tantamount to non-performance by the Branch Auditor inviting penal action as a reaction. It is preferable for the Branch Auditor to at least test the system. Testing the already classified account will be of no use since the classification will be non-argumentative. It is what the system skips classification of NPA (non-performing accounts) that is of concern to the Branch Auditor. Branch Auditor will thus have to sample test the system to assure him the accuracy of the classification. Some of the following steps will help begin the requisite assurance:
  a) Compare the previous year list and current. Identify and seek reasons why the upgraded accounts are upgraded and whether the reasons are justified and permitted by the regulatory authority (RBI).
  b) Take the report from the Core Banking system (as opposed to the Borrower classification



system) which gives indications of non-performing accounts in form of a few combination of reports like:

(i) List of Loan accounts with installments in arrears – if the report permits, get those accounts whose installments exceeding two are in arrears. This will permit you to study the borderline cases and even identify some which the system may not have downgraded.

(ii) The above report does not include Cash Credit (CC) and Overdraft (OD) accounts. This is because these accounts are continuous and there is no concept of 'installment'. What most systems will report will be CC and OD accounts which are overdrawn. Branch auditor will be able to identify the accounts which are overdrawn as on 31st March and a scrutiny of the accounts will confirm the date from which these accounts were 'continuously' overdrawn. If this period is 90 days then a check on classification of accounts to confirm such accounts are classified as non-performing will be order.



(iii) Report of accounts not renewed/reviewed for more than a year is one of the statements to be submitted in LFAR (long form audit report). This list is also useful to verify whether these candidates are included in the NPA list.

(iv) Report of stock statements in arrears not submitted to the Bank for a period exceeding a specified period (you can specify this period while demanding the report). If you specify the period of three months which is the trigger to downgrade the borrower's account, this will be a ready list to validate the NPA list of the branch.

(v) Report on 'Overdue Bills purchased and Bills discounted' is another powerful report for comparison of classification. The importance of this report is that while the other facility of the borrower may be in order, this is accidentally ignored. Since one NPA account forces all facility of the borrower to be downgraded, this oft-ignored department should be emphasised by the Branch Auditor.

As you can see, intervention of the Bank's Data Centre and their professionals to make a customised query is not needed.

(c) For departments not computerised which should be

few in number, the scroll or the last day listing can be compared with that of three months prior (31st December) and six months prior (31st October) to identify the common accounts. Study of each of the account will lead you to confirm their classification.

- **Revenue Accuracy Assurance:** When most Banks, even the co-operative Banks have evolved to Core Banking System (CBS), a topic of discussion like Revenue leakages seems prima facié redundant because the involved computer servers are of the latest version – the later generation of machines having fourteen floating decimal point. Perhaps one may have to reconcile our time period of this discussion being that of transitory to the destination of perfection, until which, we shall have to recognise the feature of imperfection, thus adjusting our audit plan to the inevitable verification of revenue accuracy even in the presence of the formidable machines and their magnificent chips.

Types of Errors and Their Reasons

- If one were to attempt a classification of the revenue errors, one might see in the environment a range of errors with severity to make most of us lose sleep or re-calculate every computer print; even the electronic cash till machine. Analysis will show that operational or user error is the major cause and in very few cases can we pinpoint the codes to be the cause of such an error. To assure brevity of the discussion, the presentation is made in a tabular format as below:

INTEREST ON ADVANCES		
Type of error	**Impact**	**Possible reason**
A particular product (of the Bank) is not levied interest at all. E.g. A new facility say advance against mutual funds	All advances made under the new product will suffer leakage for all branches since the application is centralised at the Data Centre and even the interest and charges procedure is run by the Data Centre.	When a new product is set up by the Data Centre, this is the time of omission. Alternatively, some applications permit specification of product/branches or their combination at the time of interest run as an operational convenience and since such a facility was not given to any borrower of that branch.
Non responsiveness of rate to increase of PLR/ TLPLR/WCPLR, etc.	When the advance is linked to Prime Lending Rate, the intention and the expected effect is that the rate should respond to the change in PLR. Sometimes, some accounts or group of accounts do not respond and remain static in their rate despite change in PLR. Such cases lead to non confidence of interest calculation as linking to PLR is gaining popularity and likely to be more widespread than before.	Account opening deficiency by not linking the account to the PLR is one major reason. Old accounts before conversion to CBS may not have been converted appropriately. In the extreme case, there may be a bug in the system not linking the PLR to new products opened after the commission of CBS.
Installment holiday miscalculates the total EMI	Where the borrower is eligible for installment holiday and the calculation of EMI is done manually, there is a possibility of error of over or under recovery of the loan. It is not uncommon to see loan accounts in credit. However, under-recover has NPA ramifications.	Manual calculation not re-checked before entry in the system is one of the major cause of error. Another reason is that of a software bug where calculation of such a situation was not rigorously tested.
Varying rate of interest in a single account may not always be right. E.g. 12 per cent till ₹2 lakh and 14 per cent over ₹2 lakh	Such accounts worked well in manual systems however under computer applications, two different accounts are advised to be opened. Where one account is opened in ignorance of this advice, errors are bound to creep in.	The complexity of the calculation can be worked out in theory in any computer by a person with reasonable programming skills. But it is dependant on the actual composition of the programming team for whom, this type of calculation is way out of normal. In any case, such accounts need to be tested for their interest calculation accuracy.
Stock/Debtors statement submission date and penal interest 	Due to operational reasons, many applications do not system stamp the date when the statement details are fed in. This is done on the universal (but wrong) plea that entry of stock statement details is not a critical function and can be done on a later date. A persistent late submitter not only results in revenue leakages but he is also a potential higher risk as it is an open secret that such a borrower will first look at his outstanding and match the stock/debtors accordingly.	When the date of stock statement submission is to be input, obligation to the borrower is the main cause of wrong date. You will find it a mystery sometimes when ALL borrowers submit statements for all the months exactly on 10th of each month. When the person entering the data is ignorant of the date, he enters a non penal date out of abundant precaution giving the borrower the misplaced benefit of doubt.

Type of error	Impact	Possible reason
Late change of rate of interest. E.g. Rates increased from 7th of a particular month but calculation done only from the 9th of that month.	Error in calculation of interest for the intervening period. In case of increase in rate of interest, it would cause a leakage in all branches as this impacts all the branches.	When the circular is received late by the Data Centre or the changes made late or not 'effective as of' date, (in which case, the change would have been made BEFORE the date of change) this is the cause of the error. Please note that change of date of charge made Before the date of change permits ample clarity of instruction to the computer to trigger the changed rate on the appropriate date without fail and it is not necessary for the dawn of the concerned date to manually make the change unless the application system is designed and coded by a high school child.
Interpretation of rate of interest from a circular designed for the manual era. E.g. Retails loans above Rs 2 lakh shall be charged 3 per cent more.	Wrong interpretation is possible especially when the Data Centre staff need not hold any Banking experience however, hold excellent technical knowledge and experience of keeping computers in working order.	When circulars are designed not keeping in mind the current information available on the system, the person of the Data Centre is not able to make the call and tries is best by inserting some rate. You have to appreciate that unlike Branch environment where the staff has intimacy with the Accounts of the Borrowers, here, it is absent and he does not know any borrower by name or his classification other than what is available and captured in the system. Circulars therefore need to be designed with a representative of the Data Centre on Board.

Other Charges on Advances		
Type of error	**Impact**	**Possible reason**
Postage/courier charges under recovery	Expenses which are recoverable are under recovered leading to erosion in profits. This is especially seen in specialised branches.	In most cases, this is manually entered by the operating branch/ office. All risks of manual entry therefore accrue to this transaction. Standardisation of charges is not practical since the weight of document dispatched may differ into the next higher slab due to higher number of enclosures.
Commission under recovery due to conversion from Bill purchase to discount or purchase.	Under-recovery in all such transactions. Unfortunately, this is a normal circumstance of conversion of collection to purchase or discount.	Full automation is rare. Wherever available, the manual input of principal or amounts on which charges are to be levied are wrongly input due to misunderstanding.
Wrong classification of Guarantee–Performance vs. Financial	Since financial Guarantee commission is lesser than that of performance, the attempt is to classify all as performance. Once such classification is input, the computerised calculation is accurate. However, the application system is not in a position to verify whether this classification is correct. It merely follows the 'switch' activated by the user.	When majority of the Guarantees are performance related, automatic wrong selection by user is done without application of mind and pause of finger on the mouse button.
Manually levied charges e.g. Processing charges are sometimes forgotten	Such charges are not recovered in some cases or some branches under the mistaken belief that the level of computerisation is so high that such charges 'must be recovered' by the system.	Absence of clear instruction to recover certain charges manually is the primary reason.

Interest Paid on Deposits		
Type of error	**Impact**	**Possible reason**
Out of the ordinary accounts interest is paid at a rate not authorised by the Board. E.g. Senior citizens or Public Charitable Trust or Society in a Co-operative Bank.	Such category of depositors in all branches will suffer the same consequence.	Classification of all categories when not available lead to this type of error when the 'via media' is manual.
Interest provision is not accurately done but 'adjusted' at the time of payment of deposit	Periodic Profit or loss is wrongly stated. In the rare case of a bug, it impacts all the branches or all deposit schemes in all branches.	New scheme definition is wrongly made. Sometimes the methodology of calculation i.e. of compounding is wrongly selected.

"If one were to attempt a classification of the revenue errors, one might see in the environment a range of error with severity to make most of us lose sleep or re-calculate every computer print; even the Electronic cash till machine. Analysis will show that operational or user error is the major cause and in very few cases can we pinpoint the codes to be the cause of the error."

The discussed errors are just a tip of the iceberg.

As mentioned above, one hopes to reach the level of perfection until which such a transitory phase shall be the bane of our audit activity where we have to re-check on our ₹200 calculator whether the ₹20 lakh computer has done its calculation correctly.

In conclusion, though it is beneficial to have some knowledge of software, there is not much added advantage since none of the branch auditors are permitted to query into the database directly. However, the need for such is also questionable since we are able to manage with the reports of the system itself and a bit of sample testing also assures us health classification as well as revenue accuracy. ■

Audit of Non-Performing Assets

Advances constitute the largest item on the asset side of the balance sheet of a bank and therefore audit of advances is one of the most important part of bank audit. In case an advance becomes NPA, it is the main responsibility of the Auditors of the bank in ensuring that adequate provision is made by bank for diminution in value of advances. It is therefore imperative for the auditors, to have thorough knowledge of "prudential norms on income recognition, asset classification and provisioning pertaining to advances" (IRAC Norms) prescribed by RBI. IRAC Norms pertaining to advances portfolios of banks were introduced for the first time by Reserve Bank of India during financial year 1992-93 i.e. year ended 31st March, 1993 in line with the international practices. The prudential norms are formulated on the basis of objective criteria rather than on any subjective consideration. This has brought in uniform and consistent application of the norms and greater transparency in published accounts of banks. The latest master circular No. DBOD.No.BP. BC.21/21.04.048/2010-11 dated 1st July, 2010 contains prudential norms which is applicable for the statutory audit of bank for the year ending 31st March, 2011. In this article salient features and some of the aspects of prudential norms relevant for audit of NPA of banks have been discussed.

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Asset Type

(a) **Standard Asset:** The account is not non-performing and does not carry more than normal risk attached to the business.

(b) **Non-Performing Asset (NPA):** An asset becomes NPA when it ceases to generate income for the bank. This would mean that an account would be classified as NPA on the basis of record of recovery rather than security charged in favour of the bank in respect of such account. *Thus, an account would become NPA if interest charged to that particular borrower is not realised despite the account being fully secured.*

Identification of Account as NPA

RBI has laid down various criteria for classification of various types of advances as NPA which is based on record of recovery and are as under:

(i) **Term Loan:** Interest and/or instalment of principal remain overdue for a period of more than 90 days.

It is very important to note here that as per para 2.1.3 of the master circular, an account would be classified as NPA only if the interest due and charged during any quarter is not serviced fully within 90 days from the end of the quarter. Thus, interest charged on

31st July, 2010 in a term loan account would be due on 30th September, 2010. If it is not serviced within 90 days from 30th September, 2010, then term loan account would become NPA, not otherwise.

(ii) Overdraft/Cash Credit: If an account remains out of order, it would become NPA.

For this purpose an account would be treated as 'out of order' if:

i) The outstanding balance remains continuously in excess of the sanctioned limit/drawing power for 90 days or more or

ii) Even if the outstanding in the account is less than the sanctioned limit/drawing power, there are no credits in the account continuously for 90 days as on the date of the Balance sheet or

iii) Credits in the account are not sufficient to cover interest debited during the same period.

As on 31st March 2011, if any of the above criteria is satisfied, the account would be classified as NPA.

Auditor should verify stock statement to check the correctness of drawing power and whether the same is calculated in accordance with the approved policy of bank. Also, to verify that the balance in the account is not exceeding the drawing power. Sanctioned limit of an account may be ₹10 lakh but the drawing power of the account may be ₹8 lakh. A CC account which is classified as standard may get classified as NPA because of error in calculation of drawing power.

Loans with moratorium for payment of interest

(a) In cases where moratorium is available for payment of interest, payment of interest becomes 'due' only after the moratorium or gestation period is over. Therefore, such amounts of interest do not become overdue and hence do not become NPA, with reference to the date of debit of interest. They become overdue after due date for payment of interest, if uncollected.

(b) In the case of housing loan or similar advances granted to staff members where interest is payable after recovery of principal, interest need not be considered as overdue from the first quarter onwards. Such loans/advances should be classified as NPA only when there is a default in repayment of instalment of principal or payment of interest on the respective due dates.

(iii) Bills Purchased/Discounted: If the bills purchased or discounted remains overdue for a period of more than 90 days from its due date.

(Iv) Agricultural Advances: A loan granted for;

a) Short duration crops will be treated as NPA, if the installment of principal or interest thereon remains overdue for two crop seasons.

b) Long duration crops will be treated as NPA, if the installment of principal or interest thereon remains overdue for one crop season.

For the purpose of these guidelines, "long duration" crops would be crops with crop season longer than one year and NPA date would depend on crop cycle, which is decided by State Level Bankers' committee in each state.

(v) The amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitisation transaction undertaken in terms of guidelines on securitisation dated 1st February, 2006.

(vi) In respect of derivative transactions, the overdue receivables representing positive mark-to-market value of a derivative contract, if these remain unpaid for a period of 90 days from the specified due date for payment.

(vii) Guidelines for classification of projects under implementation are as under:

Note:

	Before commencement of commercial operation	Fails to commence commercial operation within two years (IS)/ six months(NIS) from DCCO	Restructuring due to court cases (refer note e)	Restructuring due to other reasons (Refer note e)
Infrastructure Sector (IS)	a) Classify as NPA if interest/ instalment is 90 days overdue b) Classify as Standard if restructured and eligible to be classified as Standard	a) Classify as NPA if interest/ instalment is 90 days overdue b) Classify as Standard if restructured and eligible to be classified as Standard	a) Can be retained as Standard, if restructured within two years from original DCCO b) DCCO can be extended up to four years beyond the original DCCO	a) Can be retained as Standard ,if restructured within two years from original DCCO b) DCCO can be extended up to three years beyond the original DCCO
Non Infrastructure Sector (NIS)	a) Classify as NPA if interest/instalment is 90 days overdue b) Classify as Standard if restructured and eligible to be classified as Standard	a) Classify as NPA if interest/ instalment is 90 days overdue b) Classify as Standard if restructured and eligible to be classified as Standard	Not applicable	a) Can be retained as Standard ,if restructured within six months from original DCCO b) DCCO can be extended up to 12 months beyond the original DCCO

It is very important to note that as per para 2.1.3. of the master circular, an account would be classified as NPA only if the interest due and charged during any quarter is not serviced fully within 90 days from the end of the quarter. Thus, interest charged on 31st July, 2010 in a term loan account would be due on 30th September, 2010. If it is not serviced within 90 days from 30th September, 2010, then term loan account would become NPA, not otherwise.

a) *For all projects financed by the FIs/ banks after **28th May, 2002**, the date of completion of the project should be clearly spelt out at the time of financial closure of the project.*
b) *'Project Loan' would mean any term loan which has been extended for the purpose of setting up of an economic venture. Banks should fix a Date of Commencement of Commercial Operations (DCCO) for all project loans at the time of sanction of the loan/financial closure.*
c) *The above asset classification norms would apply to the project loans before commencement of commercial operations.*
d) *The above guidelines would not be applicable for restructuring of advances which are dealt with by different sets of guidelines.*
e) *Any change in the repayment schedule of a project loan would not be treated as restructuring if :*
   (i) *The increase in scope and size of the project takes place before commencement of commercial operations of the existing project.*
   (ii) *The rise in cost excluding any cost-overrun in respect of the original project is 25 per cent or more of the original outlay.*
   (iii) *The bank re-assesses the viability of the project before approving the enhancement of scope and fixing a fresh DCCP.*
   (iv) *On re-rating, (if already rated) the new rating is not below the previous rating by more than one notch.*

Exceptions/Clarifications

Accounts with temporary deficiencies: An account should not be classified as NPA, if the deficiencies like non submission of stock statement, non renewal of facility in the account are temporary in nature. RBI guidelines in this regard as under.

a) Drawing power is required to be arrived at based on the stock statement which is current. However, considering the difficulties of large borrowers, stock statements relied upon by the banks for determining drawing power should not be older than three months. The outstanding in the account based on drawing power calculated from stock statements older than three months, would be deemed as irregular. A CC/OD account would become NPA if such irregular drawings are permitted in the account for a continuous period of 90 days.
   For example if borrower is continued to be allowed drawing on the basis of stock statement of August 2010 which is due to be filed by 7th September, 2010, then the account would become irregular on 7th December, 2010 and NPA on 7th March, 2011.
b) An account where the regular/ad hoc credit limits have not been reviewed/renewed within 180 days from the due date/date of ad hoc sanction will be treated as NPA.

Asset Classification to be borrower-wise and not facility-wise: All the facilities granted by a bank to a borrower and investment in all the securities issued by the borrower will have to be treated as NPA/NPI and not the particular facility/investment or part thereof which has become irregular. However, there are following exceptions to this guideline:

i) Under the on-lending system, only that particular credit facility granted to PACS/FSS which is in default will be classified as NPA and not all the credit facilities sanctioned to a PACS/FSS.
ii) Any amount, representing positive mark-to-market value of the foreign exchange derivative contracts (other than forward contract and plain vanilla swaps and options) that were entered into during the period April 2007 to June 2008, which has already crystallised or might crystallise in future and is/ becomes receivable from the client, even if overdue for a period of 90 days or more, will not make other funded facilities provided to the client, NPA on account of the principle of borrower-wise asset classification, though such receivable overdue for 90 days or more shall itself be classified as NPA, as per the extant IRAC norms
iii) In respect of additional facilities sanctioned under the rehabilitation

Auditor should verify stock statement to check the correctness of drawing power and whether the same is calculated in accordance with the approved policy of bank. Also to verify that the balance in the account is not exceeding the drawing power. Sanctioned limit of an account may be ₹10 lakh but the drawing power of the account may be ₹8 lakh. A CC account which is classified as standard may get classified as NPA because of error in calculation of drawing power.

package approved by BIFR, classification norms will become applicable after a period of one year from the date of disbursement. That means additional facility can be treated as standard upto one year from the date of disbursement.

Advances under consortium arrangements: Asset classification of accounts under consortium should be based on the record of recovery of the individual member banks and other aspects having a bearing on the recoverability of the advances. Where the remittances by the borrower under consortium lending arrangements are pooled with lead bank and lead bank is not parting with the share of other member banks, the account will be treated as not serviced in the books of the other member banks and therefore, be treated as NPA. If the bank is able to arrange to get their share of recovery transferred from the lead bank or get an express consent from the lead bank for the transfer of their share of recovery, they may be able to make proper classification in their books.

Advances against Term Deposits, NSCs, KVP/IVP, etc: Advances against term deposits, NSCs eligible for surrender, IVPs, KVPs and life policies need not be treated as NPAs. Advances against gold ornaments, government securities and all other securities are not covered by this exemption.

Government guaranteed advances: The credit facilities backed by guarantee of the Central Government though overdue may be treated as NPA only when the Government repudiates its guarantee when invoked.

Upgradation of loan accounts classified as NPAs: If arrears of interest and principal are paid by the borrower in the case of loan accounts classified as NPAs, the account should no longer be treated as non-performing and may be classified as 'standard'.

Accounts regularised near about the balance sheet date: An account

All the facilities granted by a bank to a borrower and investment in all the securities issued by the borrower will have to be treated as NPA/NPI and not the particular facility/investment or part thereof which has become irregular. However, there are certain exceptions to this guideline, including that Under the on-lending system, only that particular credit facility granted to PACS/ FSS which is in default will be classified as NPA and not all the credit facilities sanctioned to a PACS/FSS.

which is generally irregular where a solitary or a few credits are recorded before the balance sheet date should be carefully checked. Where the account indicates inherent weakness on the basis of the data available, the account should be deemed as a NPA. In other genuine cases, the auditors must obtain satisfactory evidence about the manner of regularisation of the account to eliminate doubts on their performing status.

Income Recognition

i) As per Accounting Standard 9 on Revenue Recognition and as per the master circular of RBI, income should be recognised when there is a reasonable certainty about its realisability. In respect of NPA there is no reasonable certainty about realisability of interest, therefore it is booked as income only when it is actually realised. If the bank follows policy of charging interest in NPA account then same should not be taken to income but to unrealised interest or interest suspense account.

   However, interest on advances against term deposits, NSCs, IVPs, KVPs and Life policies may be taken to income account on the due date, provided adequate margin is available in the accounts.

   For example: A borrower has taken loan of ₹1 lakh against term deposit of ₹1.25 lakh. Balance in the account as on 31st March 11 is ₹1.10 lakh. Even though account is over drawn income would be recognised since value of deposit is more than the balance outstanding.

ii) Income on standard advances is recognised on accrual basis except in case of income on Central Government guaranteed advances, which would have otherwise become NPA, income is recognised on realisation.

iii) In the case of accounts where the pre-restructuring facilities were classified as 'sub- standard' and 'doubtful', interest income on the additional finance should be recognised only on cash basis

iv) In Projects loans, any funding of interest in respect of NPAs, if recognised as income, should be fully provided for.

v) If the amount of interest dues is converted into equity or any other instrument, and income is recognised in consequence, full provision should be made for the amount of income so recognised. However, if the conversion of interest is into equity which is quoted, interest income can be recognised at market value of equity, as on the date of conversion, not exceeding the amount of interest converted to equity.

vi) The income in respect of unrealised interest which is converted into debentures or any other fixed maturity instrument should be recognised only on redemption of such instrument.

vii) Fees and commissions earned by the banks as a result of re-negotiations or rescheduling of outstanding debts should be recognised on an accrual basis over the period of time covered by the renegotiated or rescheduled extension of credit.

Reversal of Income

i) If any advance, including bills purchased and discounted, becomes NPA as at the close of any year, entire interest accrued and credited to income account in the past periods, should be reversed or provided for if the same is not realised during the year under audit. This will apply to Government guaranteed accounts also.

ii) In respect of NPAs, fees, commission and similar income that have accrued should cease to accrue in the current period and should be reversed or provided for with respect to past periods, if uncollected.

iii) The finance charge component of finance income [as defined in 'AS 19 – Leases' issued by the Council of the Institute of Chartered Accountants of India (ICAI)] on the leased asset which has accrued and was credited to income account before the asset became non-performing, and remaining unrealised, should be reversed or provided for in the current accounting period.

"An account which is generally irregular where a solitary or a few credits are recorded before the balance sheet date should be carefully checked. Where the account indicates inherent weakness on the basis of the data available, the account should be deemed as a NPA. In other genuine cases, the auditors must obtain satisfactory evidence about the manner of regularisation of the account to eliminate doubts on their performing status."

Appropriation of Recovery in NPAs: In case of any recovery in the NPA, the application of recovery towards interest/principal should be based on the agreement with the borrower. In the absence of a clear agreement, banks should adopt an accounting principle and exercise the right of appropriation of recoveries in a uniform and consistent manner. Thus, as per the consistent policy of the bank recovery may be appropriated towards interest or principal.

Asset Classification

Having identified assets as NPA, banks are required to classify them further into

a) Sub-standard Assets

b) Doubtful Assets

c) Loss Assets

i) **Sub-standard Assets:**

An account which is classified as NPA for the first time, is categorised as Sub Standard for a period of less than or equal to 12 months from the date of advance becoming NPA. However in following circumstances, the NPA should be straightaway classified as doubtful/loss asset.

a. Where there are potential threats for recovery on account of erosion in the value of security or non-availability of security and existence of other factors such as frauds committed by borrowers.

b. When erosion in the realisable value of the security is less than 50 per cent of the value assessed by the bank or accepted by RBI at the time of last inspection, NPAs should be straightaway classified under doubtful category.

c. If the realisable value of the security, as assessed by the bank/approved valuers/RBI is less than 10 per cent of the outstanding in the borrowal accounts, the NPA should be straightaway classified as loss asset.

"If any advance, including bills purchased and discounted, becomes NPA as at the close of any year, entire interest accrued and credited to income account in the past periods, should be reversed or provided for if the same is not realised during the year under audit. This will apply to Government guaranteed accounts also."

ii) **Doubtful Assets:**

An account is classified as doubtful if it has remained in the sub-standard category for a period of 12 months.

iii) **Loss Assets:**

Such an asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value (less than 10 per cent of balance outstanding).

Prudential Guidelines on Restructuring of Advances by Banks

(I) There is different set of guidelines for classification of advances under restructuring in Part B of the Master Circular of Reserve Bank of India.

Guidelines are extended to following four category of advances:

i. Advances to industrial units

ii. Industrial units under the Corporate Debt Restructuring (CDR) Mechanism

iii. Advances extended to Small and Medium Enterprises (SME)

iv. Restructuring of all other advances.

(II) Eligibility Criteria:

a) Banks may restructure the accounts classified under 'standard', 'substandard' and 'doubtful' categories.

b) Banks cannot reschedule/restructure/renegotiate borrowal accounts with retrospective effect. While a restructuring proposal is under consideration, the usual asset classification norms would continue to apply.

c) The process of restructuring can be initiated by the bank in deserving cases subject to customer agreeing to the terms and conditions.

d) No account will be taken up for restructuring by the banks unless the financial viability is established and there is a reasonable certainty of repayment from the borrower, as per the terms of restructuring package.

e) The borrowers indulging in frauds and malfeasance are ineligible for restructuring. However, in old cases where the manner of classification of a borrower as a wilful defaulter was not transparent and bank satisfies itself that the borrower is in a position to rectify the wilful default, the restructuring of such cases may be done with Board's approval and for accounts the restructuring under the CDR Mechanism may be carried out with the approval of the Core Group

f) BIFR cases are eligible for restructuring after their express approval and ensuring that all the formalities in seeking the approval from BIFR are completed before implementing the package.

(III) Asset Classification Norms:

a) The restructuring/rescheduling/renegotiation of the terms of loan agreement could take place:
   i) before commencement of commercial production;
   ii) after commencement of commercial production but before the asset has been classified as sub standard,
   iii) after commencement of commercial production and after the asset has been classified as sub standard.

b) Upon restructuring, the accounts classified as 'standard assets' would get reclassified as 'sub-standard assets' and account which is already NPA would continue to have the same classification and slip in to further lower asset classification as per the extant asset classification norms

c) Any additional finance may be treated as 'standard asset', up to a period of one year after the first interest/principal payment, whichever is earlier, falls due under the approved restructuring package.

d) All restructured accounts which have been classified as NPA upon restructuring, would be eligible for up-gradation to the 'standard' category after observation of 'satisfactory performance' during the period of one year from the date when the first payment of interest or installment of principal falls due under the terms of restructuring package.

(IV) Provisioning Norms:

a) The total provisions required against an account under restructuring would be normal provisions plus provisions in lieu of diminution in the fair value of the advances.

b) Normal provision is discussed elsewhere in this article.

c) Diminution in fair value of the advance is difference between fair value of advance before and after restructuring. Fair value of advance before/after restructuring is computed as the present value of cash flows representing the interest at the existing rate/revised rate charged on the advance before/after restructuring and discounted at an appropriate rate. The difference between two fair value would be the diminution in value of advance which would be provided for.

d) The diminution in the fair value would be required to be re-computed on each balance sheet date till satisfactory completion of all repayment obligations and full repayment of the outstanding in the account. Consequently, banks would be required to provide for the shortfall in provision or reverse the amount of excess provision.

e) As an alternative to the methodology prescribed above for computing the amount of diminution in the fair value, banks will have the option of notionally computing the amount of diminution in the fair value and providing therefore, at 5 per cent of the total exposure, in respect of all restructured accounts where the total dues to bank are less than ₹1 crore.

The borrowers indulging in frauds and malfeasance are ineligible for restructuring. However, in old cases where the manner of classification of a borrower as a wilful defaulter was not transparent and bank satisfies itself that the borrower is in a position to rectify the wilful default, the restructuring of such cases may be done with Board's approval and for accounts the restructuring under the CDR Mechanism may be carried out with the approval of the Core Group.

Special Regulatory Treatment for Asset Classification

Reserve Bank of India has stipulated special regulatory frame work for asset classification, in modification to guidelines as enumerated in para 6 above. This special treatment will be available to the borrowers engaged in important business activities, subject to compliance with certain conditions as enumerated herein and is not extended to the following categories of advances:

i. Consumer and personal

advances;

ii. Advances classified as Capital market exposures;

iii. Advances classified as commercial real estate exposures

Thus, benefit of special regulatory frame work would be available subject to compliance of conditions stipulated in points A and B below. If these conditions are not complied then guidelines as discussed in para 6 would apply to restructured accounts.

(A) Elements of special regulatory framework: The special regulatory treatment has the following two components:

(i) Incentive for quick implementation of the restructuring package:

As an incentive for quick implementation of the package, if the approved package is implemented by the bank as per the following time schedule, the asset classification status may be restored to the position which existed when the reference was made to the CDR Cell or when the restructuring application was received by the bank.

(a) Within 120 days from the date of approval under the CDR Mechanism.

(b) Within 90 days from the date of receipt of application by the bank in other cases

(ii) Retention of the asset classification of the restructured account in the pre-restructuring asset classification category

Subject to the compliance with the undernoted conditions in addition to the adherence to the prudential framework laid down in para 6 above,

(a) an existing 'standard asset' will not be downgraded to the sub-standard category upon restructuring.

(b) during the specified period, the asset classification of the sub-standard/doubtful accounts will not deteriorate upon restructuring, if satisfactory performance is demonstrated during the specified period.

> **RBI vide its circular No DBOD.No.BP.BC. 69 /08.12.001/2010-11 dated 23rd December, 2010 has increased the standard asset provision on housing loan from 0.40 per cent to 2 per cent with immediate effect. The provisioning on these assets would revert to 0.40 per cent after one year from the date on which the rates are reset at higher rates if the accounts remain 'standard'.**

(B) Compliance of the following six conditions:

i) The dues to the bank are 'fully secured' by tangible assets except in the following cases:

(a) SSI borrowers, where the outstanding is up to ₹ 25 lakh.

(b) Infrastructure projects, provided the cash flows generated from these projects are adequate for repayment of the advance, the financing bank(s) have in place an appropriate mechanism to escrow the cash flows, and also have a clear and legal first claim on these cash flows.

ii) The unit becomes viable in 10 years, if it is engaged in infrastructure activities, and in seven years in the case of other units.

(iii) The repayment period of the restructured advance including the moratorium, if any, does not exceed 15 years in the case of infrastructure advances and 10 years in the case of other advances. The aforesaid ceiling of 10 years would not be applicable for restructured home loans; in these cases the Board of Director of the banks should prescribe the maximum period for restructured advance keeping in view the safety and soundness of the advances.

(iv) Promoters' sacrifice and additional funds brought by them should be a minimum of 15 per cent of banks' sacrifice. The term 'bank's sacrifice' means the amount of "erosion in the fair value of the advance" .The additional funds required to be brought in by the promoter should be brought up front and not be phased over a period of time.

RBI has vide its circular No. DBOD.BP.No. 49/21.04.132/2010-11 dated 7th October, 2010 has made relaxation in the above condition. As per this circular, the promoter can bring 50 per cent of 15 per cent upfront and balance within a period of one year. As per the circular the contribution can be brought in by the promoters in the form of de-rating of equity, conversion of unsecured loan brought by the promoter into equity and interest free loans.

v) Personal guarantee is offered by the promoter except when the unit is affected by external factors pertaining to the economy and industry.

vi) The restructuring under consideration is not a 'repeated restructuring'

Provisioning Norms

(i) Sub-standard assets:

A general provision of 10 per cent on total outstanding should be made without making any allowance for ECGC guarantee cover and securities available.

The 'unsecured exposures' which are identified as 'substandard' would attract additional provision of 10 per cent, i.e., a total of 20 per cent on the outstanding balance.

(ii) Doubtful assets

a) 100 per cent of the extent to which the advance is not covered by the realisable value of the security to which the bank has a valid recourse and the realisable value is estimated on a realistic basis (unsecured portion).

b) In regard to the secured portion, provision may be made on the following basis, at the rates ranging from 20 per cent to 100 per cent of the secured portion depending upon the period for which the asset has remained doubtful:

Period for which the advance has remained in 'doubtful' category	Provision requirement (%)
Up to one year	20
One to three years	30
More than three years	100

(iii) Loss assets

Loss assets should be written off. If loss assets are permitted to remain in the books for any reason, 100 per cent of the outstanding should be provided for.

(iv) Standard assets

(a) direct advances to agricultural and SME sectors at 0.25 per cent;

(b) advances to Commercial Real Estate (CRE) Sector at 1.00 per cent;

(c) all other loans and advances not included in (a) and (b) above at 0.40 per cent.

RBI vide its circular No DBOD No.BP.BC.69/08.12.001/2010-11 dated 23rd December, 2010 has increased the standard asset provision on housing loan from 0.40 per cent to 2 per cent with immediate effect. The provisioning on these assets would revert to 0.40 per cent after one year from the date on which the rates are reset at higher rates if the accounts remain 'standard'.

Valuation of Security for provisioning purposes:

(i) In cases of NPAs with balance of ₹5 crore and above stock audit at annual intervals by external agencies appointed as per the guidelines approved by the Board of the bank would be mandatory. Collaterals such as immovable properties charged in favour of the bank should be got valued once in three years by valuers appointed as per the guidelines approved by the Board of Directors.

(ii) Tangible assets of the guarantor should not be considered for the purpose of determination of value of security.

Provisions under Special Circumstances

a. Provision on additional facilities

sanctioned as per package finalised by BIFR and/or term lending institutions, need not be made for a period of one year from the date of disbursement

b. Advances against term deposits, NSCs eligible for surrender, IVPs, KVPs, and life policies would attract provisioning requirements as applicable to their asset classification status.
c. Advances against gold ornaments, government securities and all other kinds of securities are not exempted from provisioning requirements.
d. Advances covered by ECGC/ CGTSI guarantee In the case of advances classified as doubtful and guaranteed by ECGC/CGTSI, provision is required to be made only for the balance in excess of the amount guaranteed by the Corporation. Further, while arriving at the provision required to be made for doubtful assets, realisable value of the securities should first be deducted from the outstanding balance in respect of the amount guaranteed by the Corporation and then provision should be made.
e. Provisioning norms for sale of financial assets to Securitisation Company (SC)/Reconstruction company (RC) –
   I. If the sale of financial assets to SC/RC, is at a price below the net book value (NBV) (i.e. book value less provisions held), the shortfall should be debited to the profit and loss account of that year.
   II. If the sale is for a value higher than the NBV, the excess provision will not be reversed but will be utilised to meet the shortfall/loss on account of sale of other financial assets to SC/RC.

Prudential Norms in Respect of Agricultural Debt Waiver Scheme

The salient provisions of the guidelines are as under:

i) Amount waived and to be claimed from Government of India to be treated as part of advance. No provision is required to be made on this amount.
ii) Provision for present value of loss of interest to be made in respect of amount receivable from Government of India in four instalments.
iii) The prudential provisions held in respect of the NPA accounts for which the debt waiver has been granted may be reckoned for meeting the provisions required on PV basis.
iv) If the amount of prudential provision held is more than the amount of provision required on PV basis, such excess provision may be reversed in a phased manner. This phased reversal may be effected in the proportion of 32 per cent,19 per cent, 39 per cent, and 10 per cent during the years ended March 2009, 2010, 2011 and 2012, respectively, only after the installments due from the Government, for the relative years, have been received.
v) The accounts subject to Debt Relief Scheme would be classified as standard/performing assets only if the farmers pay their share of the settlement within one month of the pre-specified due dates.

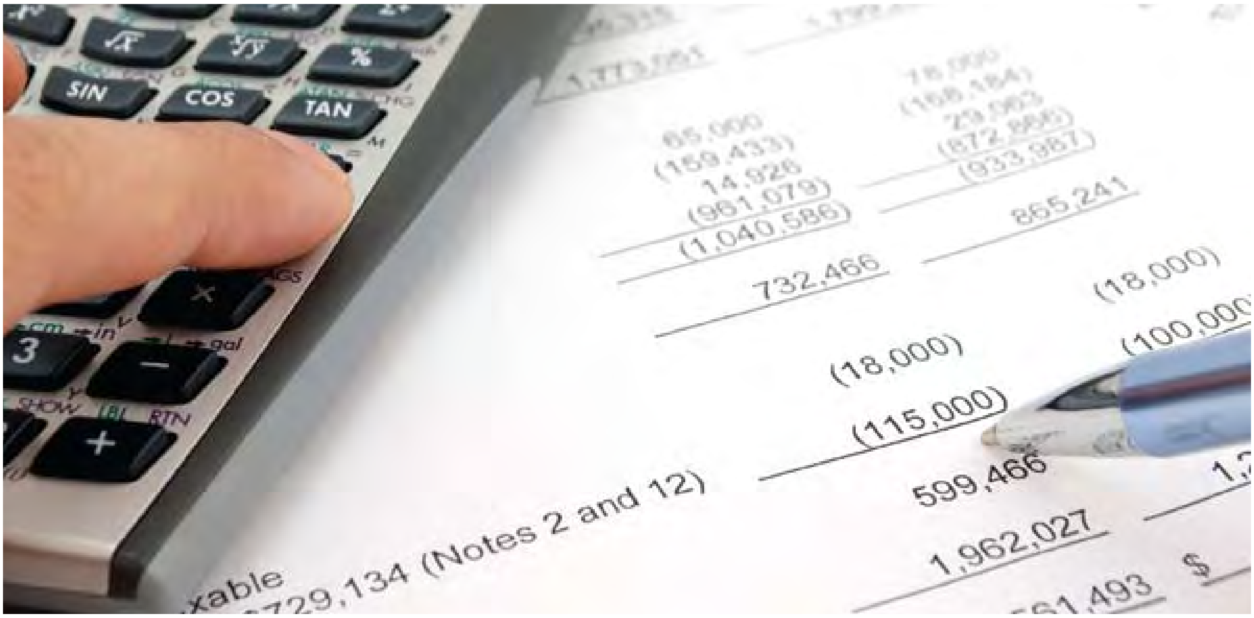
A key aspect which the auditor will have to keep in mind for audit of NPA is 'identification of date of NPA, which is on the basis of record of recovery and age of NPA.' Some of the important aspects in identification of NPA which the auditor should bear in mind are determination of correct drawing power, temporary deficiencies, fresh sanction to regularise the account, regularisation of account near about the balance sheet date etc.

Conclusion

Salient features of the Master Circular of Reserve Bank of India dated 1st July, 2010 on IRAC Norms and some of the important aspects for audit of NPAs have been discussed in this article. As discussed in this article some of the key aspects which the auditor will have to keep in mind for audit of NPA are:

1) Identification of date of NPA which is on the basis of record of recovery and age of NPA.
2) Some of the important aspect in identification of NPA which the auditor should bear in mind are determination of correct drawing power, temporary deficiencies, fresh sanction to regularise the account, regularisation of account near about the balance sheet date, etc.
3) Reversal of unrealised interest on classification of an account as NPA and non recognition of income subsequently.
4) Accounting and recognition of income in NPA accounts on partial recovery.
5) If an account is classified as NPA, all the facilities of the borrower are classified as NPA.
6) Up gradation of accounts from NPA to Standard.
7) Compliance of prudential guide-lines and provisioning, recognition of income and diminution in fair value in restructured accounts.
8) Calculation of unsecured portion and provisioning. Many a time valuation reports of securities are not available. In such situations, auditor will have to be careful in evaluating the value of securities. ■

Long Form Audit Report



RBI advised Public Sector Banks to obtain Long Form Audit Report (LFAR) from the auditor since 1985. LFAR is a separate report to be submitted to the Management in the format, prescribed by the RBI. The format of LFAR was revised in the year 2003 and the present format is effective from 31st March, 2003. The branch auditors are expected to submit the LFAR in the format prescribed for the branches of the bank. The Central Statutory Auditor is expected to review the LFARs submitted by the branch auditors and draft his LFAR in the format prescribed for the bank as a whole. Therefore, it is necessary for the branch auditors to draft the LFAR carefully and with clarity so that relevant point if any, at the branch is not missed by the Central Statutory Auditor. LFAR is not a substitute for Statutory Audit Report. Nor it is deemed to be a part of Statutory Audit Report. Thus the main report is a self contained document and the auditor should not make any reference to LFAR in the report. The matters in the main report may be elaborated in the LFAR. Any adverse comment made by auditor in LFAR, the auditor should consider whether qualification in the main report is required. It is not necessary that every adverse comment in LFAR will result into a qualification in main report. Therefore the auditor should use his judgment in the facts and circumstances in each case. Though the main report and LFAR are two separate reports, it will be advisable to finalise the Audit Report and LFAR simultaneously. This article focuses on various aspects of LFAR applicable to the branch audit.

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With the spread of Banking activities, the audit in the bank assumes utmost importance. The Stakeholders, Management, Regulator and the Society at large have lot of expectations from the auditors. With the changing technology and complexity of operations in the bank, audit assumes more and more risks. Therefore as an auditor, it is not only important to carry out the audit diligently and meticulously but also to develop a meaningful Audit Reporting Process.

Reserve Bank of India (RBI) directs, supervises and monitors Banking Industry in India. Audit assumes an important role in assisting the Regulator to supervise and monitor Banking Industry in India. There are different types of audits carried out in banks viz. Statutory audit, Concurrent audit, revenue leakage audit, stock audit, etc. Among these audits, statutory audit of the bank is an annual exercise. The statutory Auditor of the Bank is required to submit Audit Report as per the requirements of the Banking Regulation Act, 1949. However, this report does not necessarily communicates the lacunae in the operations and internal control system at the bank. Hence RBI advised Public Sector Banks to obtain Long Form Audit Report (LFAR) from the auditor since 1985. LFAR is a separate report to be submitted to the Management in the format, prescribed by the RBI. The format of LFAR was revised in the year 2003 and the present format is effective from 31st March, 2003

Features of LFAR

The Reserve Bank of India has prescribed two formats for LFAR viz. LFAR for Bank as a whole and LFAR for branches of the Bank. The branch auditors are expected to submit the LFAR in the format prescribed for the branches of the bank. The Central Statutory Auditor is expected to review the LFARs submitted by the branch auditors and draft his LFAR in the format prescribed for the bank as a whole. Therefore, it is necessary for the branch auditors to draft the LFAR carefully and with clarity so that relevant point if any, at the branch is not missed by the Central Statutory Auditor.

The format of LFAR is in a questionnaire form. These questions are to be answered clearly. These questions are only indicative and not exhaustive. Therefore, the auditor should not limit the report to only answering the questions. But any relevant point which the auditor feels necessary to mention, he may mention the same in LFAR.

LFAR is not a substitute for Statutory Audit Report. Nor it is deemed to be a part of Statutory Audit Report. Thus, the main report is a self contained document and the auditor should not make any reference to LFAR in the report. The matters in the main report may be elaborated in the LFAR. Any adverse comment made by auditor in LFAR, the auditor should consider whether qualification in the main report is required. It is not necessary that every adverse comment in LFAR will result into a qualification in main report. Therefore, the auditor should use his judgment in the facts and circumstances in each case.

Major Clauses in LFAR

In this article, the discussion is mainly on the LFAR applicable to the branch audit. Hence, the prescribed format of bank branch LFAR is discussed here.

The format of LFAR consists of the questions on four major areas. Such as:

A. Assets
   1. Cash
   2. Balances with RBI, SBI and other Banks.
   3. Money at call and Short Notice
   4. Investments
   5. Advances
   6. Other Assets

B. Liabilities
   1. Deposits
   2. Other Liabilities
   3. Contingent Liabilities

C. Profit and Loss Account

D. General
   1. Books and Records
   2. Reconciliation of Control and Subsidiary records
   3. Inter branch Accounts
   4. Audits/Inspections
   5. Frauds
   6. Miscellaneous

In addition to these questions is also gives questionnaires applicable to specialised branches

- Dealing in Foreign Exchange Transactions
- Dealing in very large advances in excess of ₹100 crore.
- Dealing in NPAs such as Asset Recovery Management Branches.
- Dealing in clearing house operations, normally referred to as service Branches

> **The Statutory Auditor of the Bank is required to submit Audit Report as per the requirements of the Banking Regulation Act, 1949. However, this report does not necessary communicates the lacunae in the operations and internal control system at the bank. Hence RBI advised Public Sector Banks to obtain Long Form Audit Report (LFAR) from the auditor since 1985. LFAR is a separate report to be submitted to the Management in the format, prescribed by the RBI.**

In addition to these questionnaires there is a format for Annexure for Large/ Irregular/Critical Advances. Normally this annexure is to be filled up by the branch management and the auditor should verify the details mentioned in the Annexure. The details will be pertaining to the advance granted in excess of ₹100 crore.

Some of the matters mentioned in the LFAR needs compilation of information at the branch. It is the responsibility of the concerned branch to compile the information and hand it over to the auditor for verification. The auditor should verify the correctness of information and include the same in his LFAR. In case, auditor faces any problem in getting such information or has a doubt about the correctness of information, he should report the same in his LFAR.

Reporting Under Specific Clauses

Cash:

The branch is expected to maintain the cash balance within the limit prescribed by the controlling authority. In case, the branch holds cash in excess of the retention limit, the auditor should report the same. Such excess balance should also be reported to the controlling authority within the prescribed time frame. The reasons for such excess cash balance should be inquired into.

Normally the global Insurance Policy for cash-in-custody or cash-in-transit is taken at the head office level. The head office of the bank normally sends confirmation to that effect to the branches.

The branch should hold cash in joint custody of the cashier and the Branch Manager. The Branch Manager is also expected to verify the cash periodically and put his signature to that effect. The auditor should report whether these directions are followed properly or not.

Apart from answering the questions in the LFAR format the auditor should comment on identification and disposal of soiled notes, counterfeit notes, stapling of notes, use of ultra violet lamps, Note counting machines, etc.

Balances with RBI, SBI and Other Banks:

In case the branch maintains the account with RBI, SBI or any other bank the auditor should see whether the reconciliation statement for the year end balances is prepared or not. He should peruse the Reconciliation statement and find out the long outstanding entries in the statement.

> **The branch is expected to maintain the cash balance within the limit prescribed by the controlling authority. In case, the branch holds cash in excess of the retention limit, the auditor should report the same. Such excess balance should also be reported to the controlling authority within the prescribed time frame. The reasons for such excess cash balance should be inquired into.**

An explanation from the branch for pending entries should be obtained. In case any revenue item which is required to be adjusted or written off in the accounts, the same should be reported in LFAR.

The auditor should give the details of entries outstanding in the Reconciliation statement which are outstanding for more than six months with specific details of outstanding entries for more than one year. The auditor may ask the bank to compile such information and verify the same before giving it in LFAR. The continuous failure of the branch to obtain the balance confirmation certificates and/ or preparing reconciliation statements should also be reported in LFAR.

Money at call and short Notice:

Normally money at call and short Notice are accounted for at the treasury department, Head Office. However, in case such transactions are located at the branch, the auditor should examine the balances held at the branch with reference to the general or specific authority and instructions/guidelines from the controlling authority. The cases of non compliance of relevant instructions should be reported including unauthorised deposits or deposits in excess of authorised limit.

Investments:

There are separate questionnaires for the branches in India and for branches outside India. Though the reporting is to be done separately, the points to report are more or less the same.

The auditor should obtain a certificate from branch regarding investments held by the branch on behalf of the head office. The auditor should verify them physically. In case the security is not available physically, the holding certificate/confirmation to that effect should be obtained. The income on investment should be reported to head office. The auditor should see that accounting of such income is done properly. The matured investments should be encashed and the RBI guidelines for valuation should be followed properly. In case of any deviation the auditor should report the same. For valuation of investment, the auditor should refer to the master circular on *"Prudential Norms for Classification, Valuation and Operation of Investment portfolio by banks"* issued by RBI.

Advances:

The reporting under advances is to be done under four broad categories viz. Credit Appraisal, Sanctioning and Disbursement, Documentation, Review/Monitoring and Supervision. This topic is dealt separately. One may refer to article on Advances. Therefore this article does not deal with advances in detail.

Other assets:

The Balance Sheet of the bank contains residual items about the assets which are not specified above, such as Stationery and Stamp, Sundries, Suspense A/c, etc. In case of stationery and stamps the auditor should check the control on custody and issue of stationery items, stamps, etc. The auditor should review the process and registers for the same. Stationery items will include Term deposit receipts drafts, pay orders, cheque books, traveler cheques, Gift Cheques, etc. The auditor should offer the suggestions for better control in maintenance and use of stationery. The instances of lost or missing stationery should also be mentioned in the report.

In case of Sundries and Suspense Accounts, the auditor should obtain the details of agewise analysis of pending entries in the account. Inquire about reason for entry being pending for unreasonable period. Assess the position of recoverability of the amount. The auditor should exercise his judgment about making necessary provision against such amounts. In case any unusual items are notices while perusing the account the auditor should report the same. The auditor should not restrict his checking only to the pending entries but he should also look into the entries which are squared off during the audit period.

Liabilities – Deposits:

A deposit accepted from the public is a liability for the bank. Inoperative deposit accounts could be viewed as one of the fraud prone areas. Therefore, there are certain guidelines for operations in inoperative accounts. The auditor should see whether operations in operative accounts are carried out as per the guidelines issued. In case, the guidelines are not followed, the details of deposits should be given viz. name of the party, the amount due, due date, nature of the deposits, etc.

The auditor should also review the deposit accounts both operative and inoperative to find out whether there are any unusual large movements (whether increase or decrease) in the aggregate deposits held at the year end. In such situation the explanation from the branch management should be obtained. The movements without proper explanation should be reported in LFAR.

Similarly, the auditor should obtain a list of overdue/matured deposits at the end of the year. The amount of overdue/matured deposits should be mentioned in LFAR.

Other Liabilities – Bills Payable, Sundry Deposits, etc.

The auditors should obtain age wise details of pending entries in bills payable, sundry Deposits Accounts from the branch management. The details obtained should be scrutinised to find out whether there exists any unusual items or material withdrawal/ debits.

Contingent Liabilities

The auditor should see that there exists a system which gives a reasonable assurance that all contingent liabilities are identified and properly disclosed. The auditor should mention the list of major items of contingent liabilities (Other than constituent's liabilities such as guarantees, Letters of Credit, acceptances, endorsements, etc.) not acknowledged by the branch. In addition, the auditor should obtain representation from branch management that all contingent liabilities have been disclosed and that the disclosed contingent liabilities do not include any contingencies which are likely to result in a loss and which therefore, require consequent adjustments of assets and liabilities.

Profit and Loss Account

The auditor should review the system at the branch to compute the discrepancy in interest, discounts or commission and for timely adjustment thereof. The Auditor should see the guidelines of controlling office in this regard. The interest and commission should be checked on test check basis to find out whether there exists proper system to compute them correctly. The income recognition Norms issued by RBI should be followed at the branch. The auditor should report any deviation in that regard. The report should also mention whether there is a system to estimate and provide interest accrued on the overdue/matured deposits.

The auditor should carry out the analytical procedure to find out whether there are any divergent trends in major items of income or expenditure. A suitable explanation should be asked for any divergent trend from the branch management. In case the auditor is not satisfied with the explanation he should mention the same in his report with proper details for the said divergent trend.

Books and Records

In most of the situations, nowadays, the books are maintained in the computerised environment. If the books are maintained manually, the auditor should peruse them to find out whether they are maintained properly. The balancing is done and it is properly inked out. The books are to be authenticated by proper signatory at the branch.

> **The reporting under advances is to be done under four broad categories viz. Credit Appraisal, Sanctioning and Disbursement, Documentation, Review/ Monitoring and Supervision. This topic is dealt separately. One may refer to article on Advances. Therefore this article does not deal with advances in detail.**

In respect of computerised environment, the hard copies of certain accounts should be printed regularly. The auditor should also mention the extent of computerisation and adequacy of the access and data security measures and other internal controls. The auditor may review the process of creation of new logins, change of password the administrative control to access different files or reports through computerised system. There should be maker checker system. Updation of the master data should be under supervisory control. The modification in the master data should be registered to Branch Manager only. The auditor should also review the contingency and disaster recovery plan for the computer system. Timely backups, offsite backups, etc should be reviewed to understand the backup procedure. The auditor should also mention any suggestion for efficient operation of the computer system.

Reconciliation of control and subsidiary Records

The auditor should see whether the subsidiary records are tallied with the control accounts. In case there are differences the same should be reported. He should also mention the date upto which the control and subsidiary records are balanced.

Inter-branch Accounts

Normally the inter branch transactions are passed through Head Office

A deposit accepted from the public is a liability for the bank. Inoperative deposit accounts could be viewed as one of the fraud prone areas. Therefore, there are certain guidelines for operations in inoperative accounts. The auditor should see whether operations in operative accounts are carried out as per the guidelines issued. In case, the guidelines are not followed, the details of deposits should be given viz. name of the party, the amount due, due date, nature of the deposits, etc.

Account. The balance in Head Office Accounts as shown in the statement should be in agreement with the Head Office Account in General Ledger. In case of any difference, the reconciliation statement should be obtained. The pending entries should be scrutinised to report whether there is a system of responding the entry promptly. The outstanding debit entries in the Head Office Account should be mentioned. The items of double response in Head Office Account should also be reported. The report will also give old/ large outstanding debit entries as at the year end which remains unexplained.

Audits/Inspections

The auditor should review the audit reports for concurrent audit, RBI inspection special audit, internal audit, credit audit, etc. and find out whether they are complied properly. While finalising the report the auditor should consider the major adverse comments arising out of these reports.

Frauds

The auditor should peruse the fraud Register and report particulars of Frauds discovered during the year under audit at the branch. The auditor can also give suggestions to minimise the possibility of their occurrence.

Miscellaneous

The auditor should mention about the adequacy of control and maintenance of records in relation to the Fixed Assets at the branch. The Fixed Asset Register should be updated. The calculation of depreciation should be checked properly and any deviation should be reported.

The auditor should report whether examination of accounts indicate possible window dressing. The auditor should review the transactions near to the balance sheet date to look into the possibility of window dressing in the account.

The auditor can also mention any other matter which he would like to bring to the notice of the management or Central Statutory Auditors.

Questionnaire Applicable to Specialised Branch

Now-a-days the banks prefer to have branches on the basis of specalised functions such as branches having foreign exchange transactions, branches for large advances Asset Recovery, Management Branches, Service Branches etc. The LFAR also provides separate questionnaire for audit of such specialised branches. The auditor is supposed to report additionally as per applicable questionnaire.

While answering these question-naires, the auditor should understand the functions and working of these branches properly and use his audit checks.

Finalisation of LFAR

The auditor should study the contents

Now-a-days the banks prefer to have branches on the basis of specialised functions such as branches having foreign exchange transactions, branches for large advances Asset Recovery, Management Branches, Service Branches etc. The LFAR also provides separate questionnaire for audit of such specialised branches. The auditor is supposed to report additionally as per applicable questionnaire.

of LFAR questionnaires thoroughly and plan for preparation of his LFAR of the branch. Though the main report and LFAR are two separate reports, it will be advisable to finalise the Audit Report and LFAR simultaneously. LFAR is a descriptive report, which will communicate the observations to the Central Statutory Auditors to finalise his final report. Hence, the comments in Bank Branch LFAR should not be vague and they should be properly supported by the incidences/observations.

It is advisable to discuss the contents of LFAR with the branch head and get his responses before finalising the same. The objective is to ensure correct presentation so as to state facts which have been verified during the course of audit.

Conclusion

With the spread of Banking activities, the audit in the bank assumes utmost importance. The Stakeholders, Management, Regulator and the Society at large have lot of expectations from the auditors. With the changing technology and complexity of opera-tions in the bank, audit assumes more and more risks. Therefore as an auditor, it is not only important to carry out the audit diligently and meticulously but also to develop a meaningful Audit Reporting Process.■

Disclosures in Financial Statements of a Bank

Disclosures, though considered being more relevant at the consolidation level, every branch auditor has an element of contribution towards everything that happens at CSA (Central Statutory Audit) level. Disclosures are assuming more and more importance since not everything can be said/expressed through the formats of the financial statements. Finally, disclosures are meant towards providing information to the readers of the financial statement that was used by the management themselves in managing the entire affair. Hence, disclosure norms will keep improving over the period. This article attempts to provide background and the genesis of the thought process behind disclosures before it goes to specific aspect of disclosures required for the financial reporting on 31st March, 2011. Technically, it would have been sufficient to provide reference to the master circular issued by RBI on 1st July, 2010 on disclosures. However this article further attempts to provide a reader "ready to use" tips on the said circular.

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RBI has always followed a conservative approach and thereby India has managed to have strengthened banking environment over the period. With the introduction of Basel norms the banking industry worldwide started gearing up for the uniform code. The First Consultative Paper on Basel accord introduced the 'three pillar' model which comprises of "the minimum capital requirements" - that attempt to consolidate the rules established in the 1988 Accord, 'supervisory review' and 'market discipline' – 'as a lever to strengthen disclosure and encourage safe and sound banking practices'. The 1988 Basel Accord was adopted as a means of achieving two primary objectives namely: (a) to help strengthen the soundness and stability of the international banking system, and (b) to mitigate competitive inequalities.

A consultative paper on "New Capital Adequacy Framework" was released in June 1999 followed by a second one in January 2011 and it was designed to promote more effectively the stability and soundness of the financial system. It calls for better alignment of capital with the underlying risk. Besides credit risks, it also addresses operational, market, legal and reputational risks. It proposes to change the approach for supervision of banks by the regulator to be more risk focused. It also proposes to use "Market Discipline" more effectively through stringent disclosure norms.

Although the first two pillars namely risk management setup and the supervisory review attempts to cover the most, there is also a limit to what the capital framework could address.

Macro management in bank is about liquidity management. There are various components which are considered to be essential to the successful implementation of monitoring and liquidity risk measurements. This includes the corporate governance, internal controls, risk management and disclosure. In short substance over the form and the transparency are the key players. Hence, there exists the need for greater reliance on disclosure requirements for greater focus on liquidity risk.

As highlighted by the recent crisis, capital requirements on their own were insufficient in addressing liquidity and funding problems which arose during the crisis. The importance of enhanced disclosures lies in its endeavours "to improve risk management and governance as well as strengthen banks' transparency and disclosures."

As a result of the inability of bank capital adequacy requirements, on their own, to address funding and liquidity problems, the need to focus on Pillar 3 of Basel II, namely, market discipline, is becoming more apparent.

According to the Financial Stability Forum (FSF), an earlier recognition of loan losses, which could have been facilitated by relevant disclosures about loan loss provisioning, could have reduced pro cyclical effects which occurred during the recent crisis in the international banking.

Macro management in bank is about liquidity management. There are various components which are considered to be essential to the successful implementation of monitoring and liquidity risk measurements. This includes the corporate governance, internal controls, risk management and disclosure. In short substance over the form and the transparency are the key players.

Hence, there exists the need for greater reliance on disclosure requirements for greater focus on liquidity risk.

Auditors Role:

Auditors' role in maintaining the market discipline is crucial. Regulators will be able to gain greater access to vital information which is required for effective performance of their functions through external auditors, in relation to the disclosure of information which is necessary and required for the efficient performance of the regulators' activities - as opposed to a right to report.
The relationship between supervisory authorities and the external auditors of a credit institution and the duties of these auditors was identified as an important lesson from the past. Because of auditors' access to financial undertakings' accounts and other essential documents and information; they assume a vital position in the overall supervisory process.

Disclosure Requirements for 31st March, 2011

RBI has come out with the master circular on disclosure. The circular brings out all the disclosure expectations in very clear and unambiguous terms. While the entire business world, by virtue of IFRS, Implementation is moving towards principle based accounting from the rule based regime, RBI is an exemplary regulatory institution which has proved that "rule based regime" if pursued in spirit, actually becomes principled way of reporting. Rather it provides consistency, discipline and removes discretionary elements from management to management, thus provides a meaningful financial statement across the industry.

Technically, it would have been sufficient to provide reference to the master circular issued by RBI on 1st July, 2010 on disclosures. However, this article attempts to provide a reader "ready to use" tips. Each item of disclosure requires (minimum disclosure norms) under the said circular is listed below with the comments:

Sr. No.	Disclosure Items	Brief Comments	Role of Branch Auditor
1.	Capital	This is about CRAR disclosures	Refer Note 1 below
2.	Investments	This about disclosures relating to investments.	This may not be relevant to branch auditors since it taken care of at treasury branch by CSA.
3.	Repo Transaction	Security related disclosures	Same as above
4.	Non-SLR Investment Portfolio	Security related disclosures	Same as above
5.	Derivatives	Security related disclosures	Same as above
6.	Forward Rate Agreement/Interest Rate Swap	Forward contract related disclosures	Refer Note 2
7.	Exchange Traded Interest Rate Derivatives	Security related disclosures	To be covered at CSA level
8.	Disclosures on Risk Exposure in derivatives	Security related disclosures	Same as above
9.	Asset Quality	1. NPA Related disclosures 2. Restructure accounts 3. Asset Sale to ARC's 4. NPA Purchase/Sale 5. Provision for Standard Assets	Refer Note 3 below

Sr. No.	Disclosure Items	Brief Comments	Role of Branch Auditor
10.	Business Ratio	Various business ratios	To be covered at CSA Level
11.	Asset Liability Management - Maturity pattern of certain items of assets and liabilities	Maturity Pattern	To be covered at CSA Level
12.	Exposure to Real Estate Sector	1. Direct exposures related disclosures (to include residential, commercial and mortgaged backed securities). 2. Indirect exposures	Refer Note 4 below
13.	Exposure to Capital Market	Security related exposures	To be covered at CSA level
14.	Risk Category wise Country Exposure	Country wise exposures	To be covered at CSA level
15.	Details of Single Borrower Limit (SGL), Group Borrower Limit (GBL) exceeded by the bank	Disclosures relating to exceeded prudential exposure limit	Refer Note 5 below
16.	Unsecured advances	Clarification on what should be considered as unsecured advances	Refer Note 6 below
17.	Amount of Provisions made for Income-tax during the year	Disclosure relating to provision on income tax	To be covered at CSA level
18.	Disclosure of Penalties imposed by RBI	Disclosure relating to regulatory penalties	To be covered at CSA level
19.	Accounting Standard 5 -	Net Profit or Loss for the period, prior period items and changes in accounting policies	To be covered at CSA level
20.	Accounting Standard 9 -	Revenue Recognition	To be covered at CSA level unless specifically instructed
21.	Accounting Standard 15 -	Employee Benefits	To be covered at CSA level unless specifically instructed
22.	Accounting Standard 17 -	Segment Reporting	To be covered at CSA level unless specifically instructed
23.	Accounting Standard 18 -	Related Party Disclosures	To be covered at CSA level unless specifically instructed
24.	Accounting Standard 21-	Consolidated Financial Statements	To be covered at CSA level unless specifically instructed
25.	Accounting Standard 22 -	Accounting for Taxes on Income	To be covered at CSA level
26.	Accounting Standard 23 -	Accounting for Investments in Associates in Consolidated Financial Statements	To be covered at CSA level
27.	Accounting Standard 24 -	Discontinuing Operations	Merger/Closure of a branch is not covered under this.
28.	Accounting Standard 25 -	Interim Financial Reporting	Not relevant for 31 March, 2011.
29.	Provisions and contingencies	Various provisions	To be covered at CSA level
30	Floating Provisions	Disclosures relating to Floating Provisions	To be covered at CSA level
31.	Draw Down from Reserves	Disclosures relating to Draw Down from Reserves	To be covered at CSA level
32.	Disclosure of Complaints	Disclosures relating to 1. Customer complaints. 2. Awards passed by banking ombudsman	To be covered at CSA level
33.	Disclosure of Letters of Comfort (LoCs) issued by banks	Disclosure of Letters of Comfort issued if any	Refer Note 7 below
34.	Provisioning Coverage Ratio (PCR)	PCR disclosure	To be covered at CSA level
35.	Bank Assurance Business	Details of fees/remuneration received	Usually this would form a separate line item in the income side.
36.	Concentration of Deposits, Advances, Exposures and NPAs	Various concentrations	To be covered at CSA level
37.	Sector-wise NPAs	Sector-wise NPAs	Refer Note 8 below
38.	Movement of NPAs	Movement of NPAs	To be covered at CSA level
39.	Overseas Assets, NPAs and Revenue	Overseas Assets, NPAs and Revenue	To be covered at CSA level
40.	Off-balance Sheet SPVs sponsored	Off-balance Sheet SPVs sponsored	May not be relevant at branch level

RBI has come out with the master circular on disclosure. The circular brings out all the disclosure expectations in very clear and unambiguous terms. While the entire business world, by virtue of IFRS, Implementation is moving towards principle based accounting from the rule based regime, RBI is an exemplary regulatory institution which has proved that "rule based regime" if pursued in spirit, actually becomes principled way of reporting. Rather it provides consistency, discipline and removes discretionary elements from management to management, thus provides a meaningful financial statement across the industry.

Note 1: Capital (CRAR Disclosures)

The calculations are facilited only at CSA level. However, on account of the new Basel requirements of applying weights to the advances on the basis of risk implications, which is provided by virtue of classifying a portfolio into various buckets. At branch level the auditor will have to be diligent in ensuring the right classification of advances into various buckets lest it may lead to miscalculation of ratio at CSA level.

Note 2: Forward Rate Agreement/ Interest Rate Swap

Although forward rates are booked at treasury branches, usually the books are maintained at branch level. It is necessary at the branch level to assess the negative gap between the values of the forward rate versus the rate as on the closing date, even during the continuance of the forward contract tenure. Master circular no. 14 dated 1st July, 2010 necessitates the branch to earmark the limit to the extent of negative gap on a monthly basis.

Note 3: Asset Quality

1. Nonperforming assets: As we are all aware at branch level auditor can only look at the proper classification of advances.
2. Restructured accounts: The details of restructured accounts would be available at branch level. The branch auditor should take these details in writing from a branch manager. The disclosure involves bifurcation of advances restructured under each category that is standard, sub standard and doubtful further it requires to categories each of the above category into three parts viz. restructured through CDR mechanism, SME debt and other.
3. Sale of assets to ARC: This may not be subject matter of the branch audit since the banks have created specialised cell to look after this portfolio.
4. Purchase/sale of NPA's: It would be advisable for branch auditor to obtain in writing the details of purchase and sale NPA's and after due checking may be disclosed in the report.
5. Provision for standard assets: This may not be subject matter of branch audit.

Note 4: Exposure to Real Estate Sector

Direct/Indirect exposures related to real estate sector (to include residential, commercial and mortgaged backed securities): The branch auditor should ensure that the books clearly show these exposures separately. Alternatively it may be necessary to provide a separately disclosure by way of a note.

Any rights, licenses, authorisations etc. (intangible assets) charged to the bank as collateral security in respect of any advance given should not be considered as tangible security hence it should be classified as unsecured advances. However such advances should be disclosed separately with the estimated value of such intangible collateral. The branch auditor should take these details from the bank during the audit and ensure that they are reported.

Note 5: Disclosures relating to exceeded prudential exposure limit

The branch auditor should take care whether branch has exceeded any single / group borrower limit. If the bank has dispersed the exposure in various branches, obviously at the branch level it would be difficult assess this breach. None the less it would be advisable to cover this aspect during the audit.

Note 6: Unsecured advances

Any rights, licenses, authorisations etc. (intangible assets) charged to the bank as collateral security in respect of any advance given should not be considered as tangible security hence it should be classified as unsecured advances. However such advances should be disclosed separately with the estimated value of such intangible collateral. The branch auditor should take these details from the bank during the audit and ensure that they are reported.

Note 7: Disclosure of Letters of Comfort issued, if any

This may not be so relevant at the branch audit level. However, it is advisable to ask for the details of any LOCs issued. If there are any, cumulative financial obligations under LOCs, must be disclosed separately.

Note 8: Sector-wise NPAs

The disclosure norms require a bank to disclose percentage of NPA's to total advances in the respective following sectors.

1. Agriculture and allied activities
2. Industry (Micro & small, medium and large)
3. Services
4. Personal Loans

Although this will be taken care at CSA level proper classification for above sectors is ensured at the branch level.

List of Circulars consolidated by the Master Circular

1	DBOD.No.BP.BC.78/ C.686-91t	Feb 06,1991	3,4	Revised Format of the Balance Sheet and Profit & Loss Account	2
2.	DBOD.No.BP.BC.91/ C.686-91	Feb 28,1991		Accounting Policies - Need for Disclosure in the Financial Statements of Banks	2
3	DBOD.No.BP.BC.59/21.04.048/97	May 21, 1997	1,2,3	Balance Sheets of Banks - Disclosures	3.1(i)(iv)(v); 3.2.(1):3.4.1(i)3.8.1
4	BDOD.No.BP.BC.9/21.04.018/98	Jan 27, 1998	2	Balance Sheet of Banks – Disclosures	3.1(ii)(iii) 3.5 (i) to (vi)
5	DBOD.No.BP.BC.32/21.04.018/98	Apr 29, 1998	(ii)(a)(b)	Capital Adequacy – Disclosures in Balance Sheets	3.5(i) to (vi)
6	DBOD.No.BP.BC.9/31.04.108/99	Feb 10, 1999	3,4	Balance Sheet of Banks – Disclosure of Information	3.4.1(ii) (iii); 3.6
7	MPD.BC.187/07.01.279/1999-2000	July 7, 1999	1, Annex 3(v)	Forward Rate Agreements/Interest Rate Swaps	To be covered at CSA level
8	DBOD.No.BP. BC.164/21.04.048.2000	Apr 24, 2000	3	Prudential Norms on Capital Adequacy, Income Recognition Asset Classification and Provisioning, etc.	3.4.5
9	DBOD.No.BP. BC.73/21.04.018/2000-01	Jan 30, 2001	2.6	Voluntary Retirement Scheme (VRS) Expenditure - Accounting and Prudential Regulatory Treatment	4.3
10	DBOD.BP.BC.27/21.04.137/2001	Sept 22, 2001	6	Bank Financing for Margin Trading	3.7.2(vi)
11	DBOD.BP.BC.38/21.04.018/2001-2002	Oct 27, 1991	2(i) (ii)	Monetary and Credit Policy Measures - Mid-Term Review for the year 2001- 2002 - Balance Sheet Disclosures	3.2(2); 3.4.1(iv)
12	DBOD.No.IBS.BC. 65/23.10.015/ 2001-02	Feb 14, 2002	1, 10	Subordinated Debt for Inclusion in Tier II Capital - Head Office Borrowings in Foreign Currency by Foreign Banks Operating in India	3.1 explanation
13	DBOD.No.BP.BC. 84/21.04.018/ 2001-02	Mar 27, 2002	2	Balance Sheet of Banks - Disclosure of Information	3.2(2)
14	DBOD.No.BP. BC.68/21.04.132/2002-03	Feb 05, 2003	1, Annex 6	Corporate Debt Restructuring (CDR)	3.4.2
15	DBOD.BP.BC.71/21.04.103/2002-03	Feb 19, 2003	Annex 24 (a) (b)	Guidelines on Country Risk Management by banks in India	3.7.3
16	DBOD.No.BP. BC.72/21.04.018/2001-02	Feb 25, 2003	16	Guidelines for Consolidated Accounting and Other Quantitative Methods to Facilitate Consolidated Supervision	4.6
17	IDMC.3810/11.08.10/2002-03	Mar 24, 2003	1, 5(v)	Guidelines for Uniform Accounting for	3.2.1
18	DBOD.No.BP.BC.89/21.04.018/ 2002-03	Mar 29, 2003	4.3.2, 5.1, 6.3.1, 7.3.2, 8.3.1	Guidelines on Compliance with Accounting Standards (AS) by Banks	4.1 to 4.5
19	DBOD.No.BP. BC.96/21.04.048/2002-03	Apr 23, 2003	1, Annex 6	Guidelines on Sale of Financial Assets to SC/RC (Created under the SARFAESI Act, 2002) and Related Issues	3.4.3
20	IDMC.MSRD.4801/06.01.03/2002-03	Jun 3, 2993	4(x)	Guidelines on Sale of Financial Assets to SC/RC (Created under the SARFAESI Act, 2002) and Related Issues	3.3.2
21	DBOD.BP.BC.44/21.04.141/ 2003-04	Nov 12, 2003	Appendix 11(4)	Guidelines on Exchange Traded Interest Rate Derivatives	3.2.2
22	DBOD.No.BP. BC.82/21.04.018/2003-04	Apr 30, 2004	4.3.2	Prudential Guidelines on Banks Investment in Non-SLR Securities	4.9

23	DBOD.No.BP.BC. 100/21.03.054/2003-04	Jun 21, 2004	2(vb)	Guidelines on compliance with Accounting Standards (AS) by banks	3.7.4
24	DBOD.BP.BC.49/21.04.018/2004 -2005	Oct 19, 2004	5	Annual Policy Statement for the year 2004-05 - Prudential Credit Exposure Limits by Banks	3.8.2
25	DBOD.No.BP. BC.72/21.04.018/2004-05	Mar 3, 2005	Annex	Enhancement of Transparency on Bank's Affairs through Disclosure	3.3.3
26	DBS.CO.PP. BC.21/11.01.005/2004-05	Jun 29, 2005	2.(a)(b)	Exposure to Real Estate Sector	3.7.1
27	DBOD.BP.BC.16/21.04.048/2005-06	July 13, 20905	7	Guidelines on purchase/sale of Non Performing Assets	3.4.4
28	DBOD.NO.BP.BC.86 21.04.018/2005-06	May 29, 2006	3	Disclosure in Balance Sheets- Provisions and Contingencies	4.12.1
29	DBOD.NO.BP. BC.89/21.04.048/2005-06	Jun 22, 2006	2(iv)	Prudential norms on creation and utilisation of floating provisions	4.12.2
30	DBOD.BP.BC.31/21.04.018/ 2006-07	Sept 20, 2006	3.(iii)	Section 17 (2) of Banking Regulation Act, 1949 - Appropriation from Reserve Fund	4.12.3
31	DBOD.No.Dir. BC.47/13.07.05/2006-07	Dec 15, 2006	2.1	Banks' exposure to Capital Markets - Rationalisation of Norms	3.7.2
32	DBOD. No. Leg BC.60/09.07.005/2006-07	Feb 22, 2207	3	Analysis and Disclosure of complaints - Disclosure of complaints / unimplemented awards of Banking Ombudsmen along with Financial Results	4.12.4
33	DBOD.No.BP. BC.81/21.04.018/2006-07	Apr 18, 2007	4	Guidelines - Accounting Standard 17(Segment Reporting) - Enhancement of disclosures	4.4
34	DBOD.No.BP. BC.90/20.06.001/2006-07	Apr 27, 2007	10	"Implementation of the New Capital Adequacy Frame work"	
35	DBOD No. BP.BC. 65/21.04.009/2007-08	Mar 4, 2008	2(iv)	Prudential Norms for Issuance of Letters of Comfort by Banks regarding their Subsidiaries	4.12.5
36	DBOD.No.BP. BC.37/21.04.132/2008-09	Aug 27,2008	Annex 3	Prudential Guidelines on Restructuring of Advances by Banks	3.4.2
37	DBOD.No.BP. BC.124/21.04.132/2008-09	Apr 17, 2009	Annex	Prudential guidelines on3.4.2 restructuring of advances	3.4.2
38	DBOD.No.BP. BC.125.125/21.04.048/2008-093.2.1	Apr 17, 2009	2	Prudential Norms on Unsecured Advances	3.7.5
39	DBOD.No.BP. BC.64/21.04.048/2009-10	Dec 1, 2009	5	Second Quarter Review of Monetary Policy for the Year 2009-10 - Provisioning Coverage for Advances	5.6
40	DBOD.No.FSD. BC.67/24.01.001/2009-10	Jan 7, 2010	2	Disclosure in Balance Sheet Banc assurance Business	5.7
41	DBOD.BP.BC.79/21.04.018/2009-10	Mar 15, 2010	Annex	Additional Disclosures by banks in Notes to Accounts	5.8
42	IDMD/4135/11.08.43/ 2009-10	Mar 23, 2010	9	Guidelines for Accounting of Repo/ Reverse Repo Transactions	3.2.1

List of Relevant RBI Master Circulars for Scheduled Commercial Banks

S. No.	Circular Number	Date Of Issue	Subject
1.	RBI/2010-2011/102 DCM (NE) No.G-3 /08.07.18/2010-11	1.7.2010	Master Circular – Facility for Exchange of Notes and Coins
2.	RBI/2010-2011/101 RPCD. No. PLFS. BC. 1/ 05.04.02/ 2010-11	1.7.2010	Master Circular - Guidelines for Relief Measures by Banks in Areas Affected by Natural Calamities
3.	RBI/2010-2011/86 Ref. MPD. No.332 /07.01.279/2010-11	1.7.2010	Master Circular on Export Credit Refinance Facility
4.	RBI/2010-2011/85 IDMD.DOD.12 /11.08. 36/2010-11	1.7.2010	Master Circular on Call/Notice Money Market Operations
5.	RBI/2010-2011/84 IDMD.DOD.14 /11.08.36/2010-11	1.7.2010	Master Circular - Guidelines for Issue of Commercial Paper
6.	RBI/2010-2011/83 IDMD.DOD.13 /11.08.36/2010-11	1.7.2010	Master Circular - Guidelines for Issue of Certificates of Deposit
7.	RBI/2010-2011/80 RPCD. CO. Plan.BC.10/04.09.01/ 2010-11	1.7.2010	Master Circular - Lending To Priority Sector
8.	RBI/2010-2011/79 RPCD.SME & NFS.BC.No.9/06.02.31/ 2010-11	1.7.2010	Master Circular - Lending to Micro, Small & Medium Enterprises (MSME) Sector
9.	RBI/2010-2011/78 DBOD No.Leg.BC. 19 / 09.07.006/2010-11	1.7.2010	Master Circular on Customer Service in banks
10.	RBI/2010-2011/76 RPCD.SP. BC. No. 4 /09.10.01/2010 - 11	1.7.2010	Master Circular- Priority Sector Lending - Credit Facilities to Minority Communities
11.	RBI/2010-2011/75 DBOD. AML. BC. No. 2/14 .01.001/2010-11	1.7.2010	Master Circular – Know Your Customer (KYC) norms/Anti-Money Laundering (AML) standards/ Combating of Financing of Terrorism (CFT)/Obligation of banks under PMLA, 2002
12.	RBI/2010-2011/74 DBOD.No.BP.BC.21 /21.04.048/2010-11	1.7.2010	Master Circular - Prudential Norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances
13.	RBI/2010-2011/73 DBOD.No.Dir.BC.13/13.03.00/2010-11	1.7.2010	Master Circular- Loans and Advances – Statutory and Other Restrictions
14.	RBI/2010-2011/72 DBOD.No.Dir.BC.9 /13.03.00/2010-11	1.7.2010	Master Circular - Interest Rates on Advances
15.	RBI/2010-2011/71 DBOD No.DIR. (Exp).BC. 06 /04.02.002/2010-11	1.7.2010	Master Circular – Rupee/Foreign Currency Export Credit and Customer Service to Exporters
16.	RBI/2010-2011/70 DBOD.No.Ret. BC. 23/12.01.001/2010-11	1.7.2010	Master Circular - Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR)
17.	RBI/2010-2011/68 DBOD No.Dir.BC. 14/13.03.00/ 2010-11	1.7.2010	Master Circular – Exposure Norms
18.	RBI/2010-2011/67 DBOD. No. Dir. BC.12/13.03.00/2010-11	1.7.2010	Master Circular - Guarantees and Co-acceptances
19.	RBI/2010-2011/66 DBOD.No.Dir.BC.11 /13.03.00/2010-11	1.7.2010	Master Circular of instructions relating to deposits held in FCNR(B) Accounts
20.	RBI/2010-2011/65 DBOD.No.Dir.BC.10/13.03.00/2010-11	1.7.2010	Master Circular on Interest Rates on Rupee Deposits held in Domestic, Ordinary Non-Resident (NRO) and Non-Resident (External) (NRE) Accounts
21.	RBI/2010-2011/64 DBOD. AML. BC. No. 1/14.08.001/2010 – 11	1.7.2010	Master Circular – Foreign Contribution (Regulation) Act, 1976 – Obligations of Banks in Regulating Receipt of Foreign Contributions by Associations/Organisations in India
22.	RBI/2010-2011/63 DBOD. No.DIR. (HSG). BC. 07/08.12.001/2010-11	1.7.2010	Master Circular on Housing Finance
23.	RBI/2010-2011/62 DBOD.No.BP.BC.15 / 21.06.001 / 2010-11	1.7.2010	Master Circular - Prudential Guidelines on Capital Adequacy and Market Discipline- New Capital Adequacy Framework (NCAF)
24.	RBI/2010-2011/61 DBOD.No.FSD.BC. 16 / 24.01.011/ 2010-11	1.7.2010	Master Circular on Credit Card Operations of banks
25.	RBI/2010-2011/60 DBOD. No.FSD.BC. 17/24.01.001/ 2010-11	1.7.2010	Master Circular - Para-banking Activities
26.	RBI/2010-2011/58 DBOD.No. BL.BC. 8/22.01.001/2010-11	1.7.2010	Section 23 of Banking Regulation Act, 1949 – Master Circular on Branch Authorisation
27.	RBI/2010-2011/57 DBOD No. DL.BC.20/20.16.003/2010-11	1.7.2010	Master Circular on Wilful Defaulters
28.	RBI/2010-2011/56 RPCD. SP. BC. No.7 /09.01.01/2010-11	1.7.2010	Master Circular on Priority Sector Lending- Special Programmes - Swarnajayanti Gram Swarozgar Yojana (SGSY)
29.	RBI/2010-2011/55 RPCD.SP.BC. No.6 /09.03.01/ 2010-11	1.7.2010	Master Circular on New “Self Employment Scheme for Rehabilitation of Manual Scavengers” (SRMS) from the Ministry of Social Justice & Empowerment for rehabilitation of all the remaining scavengers and their dependents by December 2009 and the spillover in inevitable cases up to 31st March,2010
30.	RBI/2010-2011/54 RPCD.SP.BC.No.2/09.16.01/2010-11	1.7.2010	Master Circular - Priority Sector Lending - Special Programmes Swarna Jayanti Shahari Rozgar Yojana (SJSRY)
31.	RBI/2010-2011/53 RPCD.NO.SP.BC.3/09.09.01/2010-11	1.7.2010	Master Circular - Priority Sector Lending-Credit facilities to Scheduled Castes (SCs) & Scheduled Tribes (STs)
32.	RBI/2010-2011/52 RPCD. FID. BC.No. 05 /12.01.001/ 20010-11	1.7.2010	Master Circular on Micro Credit
33.	RBI/2010-2011/51 DBOD.BP.BC.No.5 /21.04.172/2010-11	1.7.2010	Master Circular - Bank Finance to Non-Banking Financial Companies (NBFCs)
34.	RBI/2010-2011/50 DBOD No. BP. BC. 18/ 21.04.141 / 2010-11	1.7.2010	Master Circular – Prudential norms for classification, valuation and operation of investment portfolio by banks
35.	RBI/2010-2011/49 DBOD.No.BP.BC. 4. /21.01.002/2010-11	1.7.2010	Master Circular - Prudential Norms on Capital Adequacy-Basel I Framework
36.	RBI/2010-2011/41 DBOD.BP.BC No. 3/21.04.018/2010-11	1.7.2010	Master Circular - Disclosure in Financial Statements - Notes to Accounts

Accounting treatment of advance to subsidiary pending finalisation of modalities of issue of the shares.

The following is the opinion given by the Expert Advisory Committee of the Institute in response to a query sent by a member. This is being published for the information of readers.

A. Facts of the Case

1. A public limited company (hereinafter referred to as the 'company'), which is a wholly owned subsidiary of a listed government company, is in the business of exploration and production of oil and gas and other hydrocarbon related activities outside India. The company acquired oil and gas properties/blocks, by way of acquisition of property/block, acquisition of Participating Interest therein or through acquisition of the legal entity owning a right in the properties/blocks.

2. A Cyprus based company (hereinafter referred to as 'ABC'), has been acquired (100% of share capital) by the company. During the same year, ABC acquired the entire issued share capital of a UK based company (hereinafter referred to as 'XYZ'). XYZ, through its direct/ indirect subsidiaries/joint ventures, operates in several oil and gas blocks in Russia. The funds for the acquisition of XYZ amounting to USD 1,922 million equivalent to ₹93,664 million were provided by the company to ABC with the intention to treat it as share application money without entering into any formal agreement at the time of remittances. Further, the company has advanced USD 53 million equivalent to ₹2,635 million to ABC for XYZ's business requirements.

3. Subsequently, the company entered into a 'Shareholders' Investment Agreement' with ABC. As per the terms of Shareholders' Investment Agreement, ABC will issue preference/equity shares at a mutually agreed premium rate. The agreement makes clear the intention to convert the advance of USD 1,922 million given for acquisition of XYZ into preference/equity shares, however, no concrete modalities regarding vital issues of the shares like, nature of shares (i.e., equity/preference shares), number of shares, face value and premium, etc., are firmed up till the balance sheet date. No written agreement is in place regarding settlement of advance of USD 53 million given for meeting XYZ's business requirements. However, the company intends to convert this advance also into equity/preference shares and the advance is not likely to be refunded in near future.

4. As the shares are yet to be issued, the amount paid by the company to ABC has been shown as 'Advance to ABC' in the Schedule, 'Loans and Advances' in the stand-alone financial statements of the company.

5. The company intends to convert the advances of USD 1,975 million (USD 1,922 million for financing acquisition of XYZ as well as USD 53 million for financing business requirements of XYZ) into equity/ preference shares. Thus, as per the querist, the advance given to ABC, was considered as an extension to the company's net investment in ABC, which is a non-integral foreign operation and, therefore, the net investments in ABC were revalued and accounted for in accordance with the requirements of paragraphs 15 and 16 of Accounting Standard (AS) 11 (revised 2003), 'The Effects of Changes in Foreign Exchange Rates'. The company revalued the advance of USD 1,975 million at the foreign exchange rate at the year-end rate, increasing advances by ₹442 crore consisting of ₹434 crore due to revaluation of advance amounting to USD 1,922 million towards financing acquisition cost of XYZ and ₹8 crore due to revaluation of advance amount of USD 53 million towards financing business requirements of XYZ. The credit for the same amount was given to 'Foreign Exchange Translation Reserve'.

6. The querist has stated that the C&AG auditors, while carrying out their review under section 619(3)(b) of the Companies Act, 1956, objected to the above accounting treatment of showing the amount of USD 1,922 million paid to ABC towards financing acquisition cost of XYZ as 'Advance', as, in their view, the amount should be shown as 'Investment (Share Application Money pending allotment)' and, therefore, should not be revalued in accordance with Accounting Standard (AS) 13, 'Accounting for Investments'.

7. Further, as stated by the querist, the C&AG auditors questioned the credit of ₹8 crore arising on revaluation of amount of advance of USD 53 million towards financing business requirements of XYZ to 'Foreign Exchange Translation Reserve' instead of taking it to the profit and loss account as, in their view, the foreign exchange revaluation gain is of revenue nature.

B. Query

8. In view of the above stated facts, the querist has sought the opinion of the Expert Advisory Committee on the appropriate accounting treatment of advances so paid and treatment of foreign exchange gain/loss arising on revaluation thereof, i.e.,
   (a) Whether the accounting treatment followed by the company in treating payment of USD 1,975 million as 'Advance to ABC', revaluation of advances and credit of foreign exchange revaluation gains to 'Foreign Exchange Translation Reserve' is appropriate; or
   (b) Whether views of the C&AG auditors that (i) the advance of USD 1,922 million should be shown as Investment, (ii) it should not be revalued and (iii) that the foreign exchange gain arising on revaluation of advance of USD 53 million given for meeting business requirements of XYZ is a revenue gain, is appropriate; or
   (c) Whether there is any other appropriate accounting treatment/disclosure of the sum paid to ABC and revaluation thereof.

C.Points considered by the Committee

9. The Committee, while answering the query, has considered only the issues raised by the querist in paragraph 8 above and has not touched upon any other issue that may arise from the Facts of the Case, such as, accounting treatment in the books of ABC and XYZ of the funds advanced by the company, etc. Further, the Committee notes from the Facts of the Case that the company in the extant case treats ABC as a 'non-integral foreign operation'. In the absence of any information to the contrary, the Committee presumes that the company has correctly classified investment in ABC as investment in a non-integral foreign operation in accordance with the provisions of AS 11 (revised 2003).

10. The Committee is of the view that the accounting treatment in the extant case would depend upon whether the funds advanced to ABC for acquisition of shares in XYZ and for meeting XYZ's business requirements can be regarded as a monetary item or as a non-monetary item. The Committee notes the following paragraphs from Accounting Standard (AS) 11 (revised 2003), 'The Effects of Changes in Foreign Exchange Rates':

> ***"7.11 <u>Monetary items</u> are money held and assets and liabilities to be received or paid in fixed or determinable amounts of money."***
> ***"7.14 <u>Non-monetary items</u> are assets and liabilities other than monetary items."***
> "12. Cash, receivables, and payables are examples of monetary items. Fixed assets, inventories, and investments in equity shares are examples of non-monetary items. …"

11. The Committee notes from the Facts of the Case that in respect of the advance of USD 1922 million, though the company has entered into a 'shareholders' investment agreement' with ABC, it only contains the intention to convert the said advance into preference/equity shares, and no concrete modalities regarding nature of shares (i.e., equity/preference shares), number of shares, face value, premium, etc. have been decided till the balance sheet date. The Committee notes in respect of advance of USD 53 million made by the company to ABC that the company intends to convert this advance also into equity/preference shares, however, no agreement in respect thereof has been entered into or any modality for such conversion has been decided till the balance sheet date. Accordingly, the Committee is of the view that both the advances are of the nature of monetary items.

12. For determining the treatment of 'monetary items', the Committee notes the following paragraphs of AS 11 (revised 2003):

> ***"11. At each balance sheet date:***
> ***(a) foreign currency monetary items should be reported using the closing rate. …"***
> ***"13. Exchange differences arising on the settlement of monetary items or on reporting an enterprise's monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, should be recognised as income or as expenses in the period in which they arise, with the exception of exchange differences dealt with in accordance with paragraph 15."***

Net Investment in a Non-integral Foreign Operation

> ***"15. Exchange differences arising on a monetary***

item that, in substance, forms part of an enterprise's net investment in a non-integral foreign operation should be accumulated in a foreign currency translation reserve in the enterprise's financial statements until the disposal of the net investment, at which time they should be recognised as income or as expense in accordance with paragraph 31."

"16. An enterprise may have a monetary item that is receivable from, or payable to, a non-integral foreign operation. An item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, an extension to, or deduction from, the enterprise's net investment in that non-integral foreign operation. Such monetary items may include long-term receivables or loans but do not include trade receivables or trade payables."

From the above, the Committee is of the view that the two advances of USD 1922 million and USD 53 million, should be reported using the closing rate. The Committee presumes that since the intention of the company is to convert both the advances into equity/preference share capital, settlement of the advances is neither planned nor likely to occur in the foreseeable future (as envisaged in paragraph 16 of AS 11 (revised 2003) reproduced above). In such a case, keeping in view that ABC is a non-integral operation of the company, in substance, the advances would be an extension to the company's net investment in ABC, and therefore, the exchange difference arising on the balance sheet date should be accumulated in a foreign currency translation reserve in accordance with paragraph 15 of AS 11 (revised 2003) reproduced above. However, in case the presumption stated above with respect to the settlement of the advances does not hold good, the advances cannot be treated as an extension of the company's net investment in ABC. In that case, the exchange difference arising on the balance sheet date should be recognised as income or as expense in the profit and loss account of the company in accordance with paragraph 13 of AS 11 (revised 2003).

13. With respect to the disclosure of the advances in the financial statements of the company, the Committee is of the view that these advances should be disclosed under the head which most appropriately reflects their nature. Accordingly, the advances should be disclosed under the head 'loans and advances' with appropriate disclosure regarding their nature.

D. Opinion

14. On the basis of the above, and subject to the presumptions stated in paragraph 9 above, the Committee is of the following opinion on the issues raised in paragraph 8 above:

(a) Accounting treatment followed by the company in treating payment of USD 1975 million as advance to ABC, revaluation of advances and credit of foreign exchange revaluation gains to 'Foreign Exchange Translation Reserve' is appropriate subject to the presumption stated in paragraph 12 with respect to the settlement of advances. See paragraph 12 above.

(b) The views of the C&AG auditors that the advance of USD 1922 million should be shown under the head 'investment', and should not be revalued, is not appropriate. The view of the C&AG auditors that the foreign exchange gain arising on revaluation of advance of USD 53 million should be treated as a revenue gain, would be appropriate only if the presumption stated in paragraph 12 above with respect to the settlement of advance does not hold good. See paragraph 12 above.

(c) For appropriate accounting treatment/disclosure of the advance of USD 1975 million, see paragraphs 11, 12, and 13 above. ■

1	The Opinion is only that of the Expert Advisory Committee and does not necessarily represent the Opinion of the Council of the Institute.
2	The Opinion is based on the facts supplied and in the specific circumstances of the querist.
3	The Compendium of Opinions containing the Opinions of Expert Advisory Committee has been published in twenty eight volumes. A CD of Compendium of Opinions containing twenty eight volumes has also been released by the Committee. These are available for sale at the Institute's office at New Delhi and its regional council offices at Mumbai, Chennai, Kolkata and Kanpur.
4	Recent opinions of the Committee are available on the website of the Institute under the head 'Resources'.
5	Opinions can be obtained from EAC as per its Advisory Service Rules which are available on the website of the ICAI, under the head 'Resources'. For further information, write to eac@icai.org .

POSITION PAPER

Suggestions of the Group Constituted to Identify the Tax Issues Arising Out of Convergence with IFRS to the Ministry of Corporate Affairs

(Dated 13th December, 2010)

A Group for identifying direct tax issues arising from convergence of Indian Accounting Standards (IAS) with International Financial Reporting Standards (Ind AS) was constituted by the ICAI, which comprised both of members of the Council of the Institute and of the CBDT.

Thereafter, the said Group decided to form two sub-groups as follows:

(1) A sub-group under the Chairmanship of CA Mahesh P Sarda, Chairman, International Taxation Committee, ICAI to study the status of tax provisions in other countries where IFRS has already been implemented.

(2) Another sub group under the Chairmanship of CA Jayant Gokhale, Chairman, Direct Taxes Committee to study the specific differences arising out of IFRS implementation, in each of the Accounting Standard with respect to the tax laws.

On the basis of suggestions received from both the sub-groups some major tax issues arising out of convergence with IFRS were identified in the form of Position Paper. Suggestions were also received from NACAS & senior government officials. These views have been suitably incorporated in the Position Paper which was duly considered by the group. The Position Paper is to be submitted to the Ministry to assist the concerned ministries in policy formulation. It is hoped that this Position Paper would help to put in place the regulatory framework for facilitating the entire process of convergence of Indian Accounting Standards with IFRS in accordance with the timelines laid down by the Government. Following is the Position Paper for the information of the members and other readers.

1. Preparation for Convergence with IFRS in India

1.1. As per Government policy announced in 2008, the Indian Accounting Standards are expected to be fully convergent with IFRS w.e.f. 1st April, 2011. The Ministry of Corporate Affairs, Government of India Press Note vide No.1/5/2001-CL.V dated 13th May, 2008 states that the initiative for harmonisation of the Indian accounting standards with IFRS, taken up on 2001 and implemented through notification of accounting standards by the Central Government in 2006, would be continued by the Government with the intention of achieving convergence with IFRS by 2011.

1.2. In July 2009, with a view to designing a definitive roadmap for convergence with IFRS and coordinating the process, a Core Group was set-up under the Chairmanship of the Secretary, Ministry of Corporate Affairs with participation from also Ministry of Finance, C&AG, RBI, SEBI, IRDA, PFRDA, ICAI, NACAS and industry representatives. Further, two Sub-groups were also constituted. First Sub-group was set-under under the Chairmanship of Shri Y. H. Malegam, Chairman, NACAS with a view to identifying the various legal and regulatory changes required for convergence and to prepare a roadmap for achieving the same. Second Sub-group, comprising of industry CFOs, was set-up under the Chairmanship of Shri T V Mohandas Pai, Director, Infosys to interact with various stakeholders from business and industry to understand their concerns on the issues of convergence with IFRS, identify problem areas and ascertain the preparedness of the industry for such convergence. Deliberations took place in these Groups with a view to lay down the roadmap for the convergence with IFRS in India. The second Sub-group forwarded its suggestions and recommendations to Sub-Group – I. Sub-Group – I also submitted its Report to the Core Group.

1.3. The Core Group, under the Chairmanship of Secretary, Ministry of

Corporate Affairs, at its meeting held during January, 2010 after examining the Reports of the Sub-Group – I, laid down the roadmap for achieving the convergence with IFRS in India so as to meet the targeted deadline of 1st April, 2011. Now, as per the roadmap announced by the Ministry of Corporate Affairs, Government of India, the Indian Accounting Standards converged with IFRS shall be applied to specified class of companies in phases beginning with the financial year 1-4-2011.

2. Role of ICAI in identifying direct tax issues arising from convergence with IFRS

2.1. Accordingly, a Group for identifying direct tax issues arising from convergence of Indian Accounting Standards (IAS) with International Financial Reporting Standards (IFRS) was constituted by the ICAI, which comprised both of members of the Council of the Institute and of the CBDT.

The meeting of the said Group was held on 28th April, 2010, wherein it was decided to form two sub-groups as follows:

(2) A sub group to be formed under the Chairmanship of CA Mahesh P Sarda, Chairman, International Taxation Committee, ICAI to study the status of tax provisions in other countries where IFRS has already been implemented.

(2) Another sub group to be formed under the Chairmanship of CA Jayant Gokhale, Chairman, Direct Taxes Committee to study the specific differences arising out of IFRS implementation, in each of the Accounting Standard with respect to the tax laws.

2.2.On the basis of inputs received from the members of both the sub-groups, some major tax issues arising out of convergence with IFRS were identified by the sub-group and the same was placed in form of Position paper before the group in its meeting held on 18-10-2010 for its consideration. The group considered the report and decided to place its views in the meeting of NACAS scheduled on 22-10-2010 at Mumbai.

2.3.CA. Jayant Gokahle, Chairman, Direct Taxes Committee presented the views of the group before the NACAS in its meeting scheduled on 22-10-2010. As a consequence of the presentation, the Chairman, NACAS made certain observations and suggested the Secretary to the NACAS to adopt the following approach while preparing the report:

a) Identifying Permanent differences between converged Indian Accounting Standards and existing Income-tax Act, 1961

b) After identification whether the differences, if any, on account of timing differences can be tackled by effecting one time changes and meeting tax requirements

c) Clearly identifiable areas where unrealised profit/gain is likely to ocuur merely due to following of converged Indian Accounting Standards and steps to be taken for not subjecting the unrealised profit/notional gain to tax i.e. such unrealised profit should not be subjected to tax.

d) Unrealised/notional profit may be routed through Other Comprehensive Income (OCI) and not through Profit and Loss A/c

e) For certain accounting Standards (which have tax implications), IFRS offer more than one options. Nevertheless, certain areas of options still exist. A thorough examination may be done of those options and the possibility of retaining uniform option may be explored for comparability and uniformity.

f) Possibility of revaluation of fixed assets, such as land and strategic investments, which are not available for sale/trading, being taken at historical cost and option for revaluation may be explored.

This paper is intended to address the above-mentioned issues.

3. Convergence with IFRS

3.1.The groundwork for Convergence of Indian Accounting Standards with IFRS started in 2001. However, the task Force on Convergence was constituted in 2006. Thereafter, a position paper on Convergence was issued in 2007. The same was widely discussed and lead to the present position on Convergence through the Ind AS model wherein, the Ministry of Corporate Affairs agreed for two separate sets of Accounting Standards under Section 211(3C) of the Companies Act, 1956.

3.2.First set would comprise of Indian Accounting Standards, which are converged with IFRS which shall be applicable to other companies. These Standards are hereinafter referred to as IND AS. The second set would comprise of existing Accounting Standards and would be applicable to other companies, including Small and Medium Companies, hereinafter referred to as AS.

3.3.As per the roadmap announced by the Government, the first set of Accounting Standards (i.e Converged Accounting Standards) will be applied to specified class of companies in three phases starting from 1st April, 2011.

3.4.In the first phase, certain category of listed entities and public interest entities have to adopt the converged standards (Ind-AS) from accounting periods commencing on or after 1st April, 2011. These entities are estimated to be not more than 300 Companies including their subsidiaries. These entities have to prepare their Financial Statements as per Ind AS for the year beginning on 1st April, 2011.

4. Areas of Tax Impact arising out of Application of IND AS.

4.1.It is commonly accepted and appreciated that companies preparing financial statements as per the IND AS framework would have certain differences from the financial statements (FS) as prepared under the AS. Without getting into the details - (which are dealt with in a subsequent part of the note) of the resulting differences the broad points of conceptual difference may be noted as under:

a) IND AS (as also the IFRSs) lay more emphasis on the balance-sheet disclosures than the profit and loss account

b) The accounting treatment is based on fair value accounting rather than on historical cost basis which is favoured as a conservative approach in AS.

The presentation of the profit and loss under the AS and IND AS is slightly different - especially since IND AS makes a distinction between the normal incomes and what is called the "Other Comprehensive Income"(OCI).This statement inter alia contains numerous items arising out of increases/decreases consequent upon application of fair market value/ mark to market concept. However it also contains other items that are conceptually not treated as part of the current year's operating profits.

As a result of the above, certain differences in the quantification of net profit in the profit and loss of each of the entities which are following IND AS are inevitable. Therefore as per the Exposure Draft of Ind-AS 41 (Corresponding to IFRS-1) on First Time adoption of Ind-AS released by the Accounting Standard Board of ICAI, an entity is required to explain, by way of reconciliation statement, how the transition from earlier GAAP to Ind-ASs would affect its reported Balance Sheet, financial performance and cash flows.

5. Possible options on hand:

The basic principle which was agreed upon is that although effect is being given, to implementation of Ind AS for the phase I companies no change in the existing tax structure are presently contemplated. Therefore, it was decided that the entire approach is to prescribe a methodology whereby the corporates applying Ind AS would come to the original tax base as computed under the Income-Tax Act for all other tax payers (it had already been concluded in the earlier deliberations that under any circumstances different assesses having different tax bases would be inequitable and legally questionable).

Even under the present Act, the tax base which is the basis of levy of Income tax is independent of the Ass per se. This is because of numerous statutory deviations that are prescribed such as Sections 35D, 36, 40a(2)(b),40(a)(ia), 43B etc. The objective is to arrive at status quo i.e arriving at the original tax base (irrespective of the AS adopted). This could be achieved by either an in principle approach or a prescriptive approach, both of which are given hereunder:-

5.1 In principle approach- Adoption of Common tax base without effecting specific section wise changes in the Income-tax Act.

Another option would be to provide by a single amendment that in all cases where IND AS is followed, there will be an additional statement furnished by the assessee (duly verified by the auditor/chartered accountant) indicating/quantifying the major differences that have arisen pursuant to the application of IND AS rather than AS. Such an approach would require introduction of a provision in the Income-tax Act requiring reporting by way of such statement (similar to the provision requiring tax audit and a report in Form 3CD). Based on the list of standards were differences are likely to arise as indicated in the Appendix I given hereunder, the necessary format could be devised in consultation with the Ministry and suitable amendments requiring filing of such a statement could be prescribed. It may be mentioned that while such a requirement is certainly possible, there could be operational issues of the underlying records that would be required to be maintained in order for the chartered accountant to accurately quantify such differences on a continuing basis – especially in certain items where the effect may not be restricted to a specific financial year but may have implications for successive years (such as in the case of valuation of inventory).

However it will be equally appreciated that similar provision, on a limited scale is already applicable in the case of Section 145A which requires the inventory to be valued by including therein the indirect tax component – even though the AS applicable prescribes differently. The said adjustment is being effected outside the books of account for a number of years and the judiciary has also recognised that such an adjustment if required by law may validly be done outside the books of account.

Similarly, the quantification and deduction of depreciation as prescribed under the Companies Act 1956 and the Income-tax Act 1961 has consistently been different, and all assessees have been submitting separate data and making adjustments in their computation for giving effect to these divergent requirements. A similar approach,(admittedly scaled up significantly), would have to be applied in regard to material departures from AS arising out of application of IND AS. A policy adopting this approach would require an amendment introducing a specific reporting requirement as suggested above and prescribing a suitable format say Form 3CX.

If the above-mentioned options are adopted, specific changes are to be identified. Some of these changes are tabulated in Appendix I as under: For the sake of completeness – the comparison has been made in the sequence of the AS currently prescribed by NACAS (Companies Act 1956).

5.2. Prescriptive approach- Specific changes in the Income-tax Act, 1961 to be effected to bring the converged entities to the same tax base as entities following AS.

As per this option, the provisions of the Income-tax Act, 1961 will have to be amended extensively to negate the impact of compliance with the Ind AS requirements. To facilitate this process, a fairly detailed list of differences likely to arise on application of each of the AS presently applied is given hereunder in Appendix I. The sections which would require amendment would be, sub section 28, 32, 36, 40, 40A, 43, 43B, 43C, 50, 115JB, 145, 145A, Chapter XVIIB dealing with TDS. These are indicated to facilitate such changes being effected if it is decided to adopt this policy.

5.3 Parallel books

Another option which could be resorted to primarily as an ad interim measure, in case the above options of not found suitable would be to harmonise the tax bases by requiring the companies adopting IND AS to maintain parallel set of books/prepare financial statements which are drawn up in accordance with the presently applicable AS. Undoubtedly this will impose an additional burden on the companies required to do so. For the reasons mentioned hereunder, this option could be considered for Financial Year 2011-12. For later years although theoretically possible this approach may defeat the objective of introduction of IND AS (or convergence with IFRS). However for the year 2011-12, as per the requirements of Ind AS 1 in the year of transition a disclosure of major impact of the change arising out of adoption of Ind AS is required to be disclosed. This would in any case require the maintenance of suitable records and quantification of the resultant variation from the current AS. In most cases this would effectively be achieved by maintenance of parallel books. Therefore, in order to simplify the determination of taxable income as per the pre-existing tax base maintenance of parallel books may be prescribed. For the reasons mentioned above, this would not really increase the burden for the corporates. Further, it may be noted that this would not require any significant change since most of the corporates covered in phase I would already have an ERP in place which is in accordance with the current AS requirements. They would merely have to continue this system in parallel to the changed system which they are in any case required to implement to apply Ind AS.

It has often been mentioned in various public forums that in order to ease the situation for direct taxation it may be better to apply Ind AS only to consolidated financial statements (CFS). Apart from the conceptual and theoretical arguments against this approach, which were considered before taking the policy decision to apply to Standalone statements, the practical aspect is entirely missed out. If one were to prepare standalone statements as per AS and seek to prepare CFS in accordance with Ind AS, it would be a pre-requisite to generate and maintain the necessary financial data required to prepare CFS as per Ind AS. This effectively means preparing data outside the books or maintenance of parallel books which is exactly what is being suggested earlier in Paragraphs 5.1 and 5.3 respectively. Therefore, the perceived simplification for tax purposes arising out of application of Ind AS only to CFS is illusory and need not be considered.

6. Approach for transition year- FY 2011-12

6.1 In view of the fact that IFRS is to be implemented w.e.f. 1st April, 2011 and the Direct Taxes Code would come into effect from 1st April, 2012 it is felt that the Ministry of Finance would not prefer to make amendments in the Act for one year only since the same has to be substituted by Direct Taxes Code (DTC) 2010 in the near future. Therefore, for the financial year 2011-12, if parallel are prescribed as a transitional arrangement, the Income-tax Act, 1961 would continue to apply.

6.2 If this is decided upon, it may be provided that the entities may be allowed to prepare parallel books of accounts for one/more years. This may enable the income tax department to have certain live studies and to gather empirical data so that when the option of maintaining parallel books is withdrawn, a specific evaluation of probable revenue impact would be available. Such data would then facilitate other policy decisions in regard to adjustments that may be permitted. specifically in computing taxable income/book profit.

6.3 Since from April, 2012 Direct Taxes Code is proposed to be implemented, the issues arising from convergence could also be suitably dealt with in the changes being made in the DTC Bill 2010.

7. Minimum Alternate Tax (MAT)

7.1 The provisions of MAT were introduced to bring such companies under the tax net who were showing book profits and declaring dividends to the shareholders but were not paying any tax because the income computed as per provisions of the Income-tax Act, 1961 was either nil or negative.

7.2 Accordingly, the present Section 115JB provides that in case of a corporate, if the tax liability computed on the income under the provisions of the Income-tax Act is less than the tax liability computed at the rate of 18 per cent of the book profit of the company, the company is required to pay tax as per book profit named as 'Minimum Alternate Tax' (MAT). This book profit is to be computed in accordance with the provisions of the Companies Act. For MAT also various additions and deductions are to be made for computing the book profit on which MAT is payable under the provisions of the Income-tax Act, so as to neutralise the effect of certain adjustments made in the profit and loss account, which in effect either do not go to reduce the profit, or increase the income in substance, though under the accounting standards are required to be accounted for while preparing the profit and loss account under the Companies Act. List of additions and deductions is being expanded from time to time in line with the announcement of the new standard or the corporate practices. Thus, over a period, a reconciliation between the Income-tax Act and the accounting standards have been developed for determination of taxable income as well as book profit subject to MAT.

7.3 As Ind AS is to be applied to phase I companies, harmonisation of provisions of MAT in line with Ind AS is also required. Thus, to arrive at a common base a new Section say 115JBX should be inserted in the Income-tax Act, 1961. A comparison of the present position and proposed position is tabulated as under:-

Present Section 115JB	Modified Situationt
Book profit to be computed on the basis of Profit and loss account* (as per present Accounting standards)	Modified Book profits to be computed on the basis of profit and loss account* prepared on the basis of Ind AS which should be before Other Comprehensive Income (OCI)
*prepared in accordance with the provisions of Part I and Part II of Schedule VI of Companies Act,1956	*prepared in accordance with the provisions of REVISED Schedule VI of Companies Act,1956.
The accounting policies, accounting standards and the methods and rates adopted for calculating depreciation be same as adopted in the annual accounts placed before the company in its Annual General meeting in accordance with Section 210 of the Companies Act,1956	The accounting policies, accounting standards and the methods and rates adopted for calculating depreciation be same as adopted in the annual accounts placed before the company in its Annual General meeting in accordance with Section 210 of the Companies Act,1956.

7.4 With the notification of Ind AS by NACAS for phase I companies, Section 211 of the Companies Act would also need an amendment. A new Section say 211(3CB) will have to be introduced in order to recognise IFRS converged Accounting Standards i.e Ind AS.

7.5 Further, the proposed Section 115JBX will have to be worded in line with present Section 115JB and should commence from book profit before OCI. Also, in order to arrive at equitable position with the existing law, the adjustments to be made thereafter in form of additions/deductions should take into account the following :-

a) the existing adjustments to book profit and

b) the changes arising out of to application of Ind AS.

The above mentioned changes would exclude the items of OCI unless otherwise specified. Further, the adjustments may also provide that all notional gains/losses arising out of fair valuation as per Ind AS would be excluded.

Furthermore, it suggested that the gains/losses arising out of fair valuation (as per Ind AS) may be taken to Other Comprehensive income (OCI) rather than routing the same through Profit and Loss account and also a restriction may be imposed so that such gains are not made available for distribution of dividends. For achieving the said purpose, the OCI may be divided into two parts. First part may comprise of reserves build out of notional gains/losses arising on account of revaluation and second part may contain other incomes which are required to be taken to OCI due to other factors. Thereafter, imposing a restriction on the first part for not making it available for distribution may not be difficult.

It is also suggested that one time effect of transition may also be excluded from ambit of MAT.

Conclusion

Considering the various options that were examined at length, some of the theoretical alternatives which were not found practical have been eliminated. These include levying tax on different tax bases applying Ind AS only to CFS etc. Of the other alternatives it would appear that in order to reach the objective of coming to the original tax base the in principle approach suggested in Paragraph 5.1 seems to be the most practical solution. Along with this, the necessary changes in MAT provisions as suggested in Paragraph 7.5 would also have to be effected. It is believed that in this manner even after application of Ind AS there would be equity amongst all companies and complete revenue neutrality.

Based on the above it is suggested that the Government may decide upon the specific approach to be adopted so that the changes to be effected in the Companies Act (by MCA) and in the Finance Act, DTC/IT Act (by the Finance Ministry) may be harmoniously introduced.

Appendix I

IND AS-8	AS-1	Impact
Accounting Policies, Changes in Estimates and errors	**Disclosure of Accounting Policies**	
Since This is primarily a disclosure standard it would not have any tax impact except in regard to the fact that statement of OCI would have to be separately prepared as mentioned elsewhere in the note.		
IND AS 2	**AS-2**	**Impact**
Inventories	**Valuation of Inventories**	
1. Inventory purchased on deferred settlement terms		
Under IND AS-2, the difference between the purchase price of inventories for normal credit terms and the amount paid for deferred settlement terms is recognised as interest expense over the period of financing.	Inventories purchased on deferred settlement terms are not explicitly dealt with in AS 2.The entire actual cost is taken as cost without any break up.	These differences would result in changes in carrying amount of inventory – which would impact more than one year – depending on the period in which the said inventory is consumed/sold. In any case it is only a timing difference as value of closing stock (inventory) will become opening stock next year and hence revenue neutral over a period. Further, on splitting of purchase costs, interest during the year will be eligible for deduction to the extent it pertains to the current year. Thus, there will be reduction in purchase cost and corresponding reduction in value of inventory.
Example A dealer purchases goods in March,2010 on credit for three months for ₹100. The payment is to be made by him in June, 2010. If he makes prompt payment, he was offered a price of Rs. 98/-. If the goods remain unsold on 31st March 2010, the treatment of the same in the Financial Statements shall be as under:-		
Under IND AS-2, the inventory shall be valued at ₹98 and ₹2 would be taken as Finance charges and would be charged to Profit and loss account as interest for a period of three months.	Under AS-2, the inventory would be valued at ₹100/-.	Interest shown as payable by the Purchaser would not appear as interest receivable in the books of seller. The same would be shown as sale. The issue of TDS on such finance cost not reflecting in the return of TDS would also arise since there is no payee.
2. Selling and Distribution costs		
Ind AS excludes only “Selling costs” and not “Distribution costs”	AS 2 specifically excludes “selling and distribution costs from the cost of inventories and provides that it is appropriate to recognise them as expenses in the period in which they are incurred.	Similar impact as above in regard to inventory valuation.
IND AS 7	**AS-3**	**Impact**
Statement of Cash Flows	**Cash Flow Statements**	
This is disclosure Standard and does not have any impact on tax computation.		
IND AS 10	**AS-4**	**Impact**
Events after Reporting date	**Contingencies and events occurring after the Balance Sheet date**	
There is no major impact as the differences between the two standards are not significant (However, reference may also be made to observations given under AS29)		
IND AS 8	**AS-5**	**Impact**
Accounting Policies, Changes in Estimates and errors	**Net Profit or loss for the period, Prior period items and changes in Accounting policies.**	
Comparatives and prior year are restated against opening retained earnings, unless specifically exempted. The effect will be reflected in respective years.	Restatement is not required. The effect of change is included in current year income statement. The impact of change is disclosed i.e. change is made in single year.	While conceptually they should not result in any difference in taxable income for the previous year / financial year, the identification of difference which is claimable in the relevant financial year could result in some practical difficulty.
Example:- A dealer of goods opts for change in accounting policy in respect of valuation of its goods. Goods valued on LIFO basis for last five years are to be re-valued at weighted average. Let us say goods on LIFO basis was valued at ₹5000/- and goods on weighted average are now valued at ₹6000/- .		
Inventory of last five years would be restated and be increased by ₹200/- (i.e. ₹1000/5) every year.	The inventory would be shown at ₹6000/- with adequate disclosures about the change in accounting policy.	Tax difference would arise due to difference in value of closing stock.
IND AS 16	**AS-6 and AS-10**	**Impact**
Property, Plant and Equipment	**Depreciation Accounting and Accounting for Fixed assets**	
1. Dismantling Cost		
Estimated cost of dismantling/restoring the site is to be included in the cost of asset.	Actual cost is recognised. No general guidance is given for capitalisation of dismantling and site restoration cost. However, the guidance note on Accounting for Oil and Gas Producing Activities states that entities involved in those activities should capitalise the dismantling and site restoration cost.	Depreciation claim would be affected significantly. The amount capitalised and therefore the amount eligible for depreciation as per the books under IND AS would be higher and would include costs not yet incurred.

Example Site restoration costs to be incurred by Telecom Companies in connection with its towers.		
2. Assets acquired on deferred settlement basis		
The cost of property, plant and equipment is the cash price equivalent at the recognition date. If the payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognised as interest over the period of credit (unless such interest is recognised in the carrying amount of qualifying asset)	There is no guidance under AS 10 specifying treatment of fixed assets acquired on deferred settlement terms. Generally, financing element is not separated from the total price paid even if payment is deferred beyond normal credit terms.	• Depreciation claim is affected. • Imputed interest is recognised in the books of the purchaser but interest receivable is not shown in the books of seller. • Year of chargeability would differ. • Change in capitalisation value.
3. Cost of Major Inspection or Overhauls		
Cost of each major inspection or overhaul is required to be recognised in the carrying amount of the item of property, plant and equipment as replacement if the recognition criteria are met. Recognition of the cost of overhaul/inspection in profit or loss is not permitted.	Generally expensed when incurred	Impact shall be same as mentioned above. Cost and Written down value under Income-tax Act need to be computed independent of the books of account.
4. Component Approach		
The asset is to be valued component wise and depreciation is to be charged accordingly.	Component-wise approach is not adopted and depreciation is to be charged on the whole asset together.	The amount of depreciation could differ significantly as the assets useful life would be broken up for different components with some of the components having a shorter anticipated life i.e. a higher rate of depreciation. However, there would be no impact on income tax computation as in income tax, it is mandatory to follow block of asset concept.
5. Compensation for Impairment or Loss		
Compensation from third parties for impairment/ insurance claim or loss of items of property, plant and equipment are included in profit or loss when the compensation becomes receivable.	No specific requirement	The approach adopted may not be different from Income Tax Department's views.
Examples:- 1. The reimbursements by Insurance Companies after the impairment or loss of a tangible fixed asset, e.g. due to natural disasters, theft, etc.		
2. Physical replacement in whole or in part of an impaired or loss asset		
6. Depreciation and revaluations		
Depreciation amount allocated based on the useful life on a systematic basis. Depreciation method, residual value and useful lives are reviewed at each Balance sheet date	Minimum rates are prescribed as per Companies Act. No requirement of review at regular intervals	Generally, tax neutral but MAT implications could be significant. This is because as per the AS, in the case of revalued assets, the incremental depreciation is matched by an equivalent credit taken from the revaluation reserve. However, in case policy of systematic revaluation is adopted under IND AS, the entire hit would go to the profit and loss account bringing down the book profits significantly. Even at present, this issue is relevant and covered by Section 115JB.
7. Valuing investment property (Land / Building – held to earn rentals/capital appreciation)		
Investment property to be valued at **cost** or **fair value** (optional)	Investment property is usually at cost. However, revaluation with disclosures is permitted.	Ministry of Corporate Affairs was considering the doing away of the option of revaluation as it leads to non-comparability and disparity. However, NACAS was of the view that option should not be curtailed. It may be noted that this would have direct impact on Profit and loss account which has significant MAT implications. As per a recent Council decision, the notional gain or loss arising out of the revaluation of investment property should be included in Other Comprehensive Income (OCI) and not Profit and Loss A/c. It is also suggested that OCI may be divided into two parts. First part may comprise of reserves built out of notional gains/losses arising on account of revaluation and second part may contain other incomes which are required to be taken to OCI due to other factors. Thereafter, a restriction on the first part may be imposed so that no part of the same is made available for distribution of dividends.
IND AS 11	**AS-7**	**Impact**
Construction contracts	**Construction contracts**	
Revenue is recognised on completed contracts basis.	Revenue is recognised on percentage of completion method.	IND AS 11 is being modified to be in line with current AS-7. Therefore, no significant difference is forseen except on issue of point of time of recognition of revenue which is arising out of AS-9.

IND AS 18	AS-9	Impact
Revenue Recognition	**Revenue Recognition**	
Revenue has to be recognised at fair value. Fair value of revenue from sale of goods and services when the inflow of cash and cash equivalents is deferred is determined by discounting all future receipts using an imputed rate of interest. The difference between the fair value and the nominal amount of consideration is recognised as interest income using the effective interest method.	Revenue is measured by the charges made to customers for goods supplied and services rendered to them and by the charges and rewards arising from the use of resources by them. Revenue is recognised at the **nominal amount of consideration receivable.**	• Interest income is recognised in different years. • Postponement of revenue on account of adoption of discounted value and consequent timing differences. • Head of income may change. The change in value of sale as recognised in the books would also have a significant impact on indirect taxation. Since that is not the focus of the current note – this issue is not addressed in detail – even though a policy in this regard is extremely important.

Example – Sale by Deferred Consideration
An enterprise sells an item of equipment for ₹100,000 with annual instalments of ₹20,000 due for five years under zero% financing arrangement

Year	Principal Amount O/s	Interest elements @ 10 per cent	Principal element	Total payment
End of Yr 1	75,816	7,581	12,419	20,000
End of Yr 2	63,397	6,340	13,660	20,000
End of Yr 3	49,737	4,974	15,026	20,000
End of Yr 4	34,711	3,471	16,529	20,000
End of Yr 5	18,182	1,818	18,182	20,000
TOTAL		24,184	75,816	100,000

	IND AS	AS	Tax implication
Sale	75,816	1,00,000	Deferment of interest income
Interest income	24,184	-	

Recognition-Sale of Goods		
Revenue from the sale of goods should be recognised when all the following conditions have been satisfied: • Transfer of significant risk and reward of ownership to the buyer. • No managerial involvement or effective control over goods. • The amount of revenue can be measured reliably. • Probability of inflow of economic benefits. Cost Incurred or to be incurred can be measured reliably.	Revenue from the sale of goods should be recognised when all the following conditions have been satisfied: • **Completion of Performance** Transfer of property or significant risk and reward of ownership such that seller retains no effective control of goods. • **Measurability** No significant uncertainty exists regarding amount of consideration. • **Collectability** Not unreasonable to expect ultimate collection at the time of sale.	

Example: -Cost to be measured reliably
Warranty Cost should generally be estimated and accrued. If such cost cannot be estimated reliably, revenue is deferred until the amount of such expenses can be more reliably estimated or have been incurred. In these circumstances, any consideration already received from the sale of goods is recognised as a liability.
A car seller offers free service for two years at the time of sale of a car which is worth ₹5,00,000. Let us say normally, the yearly service cost of a car amounts to ₹25,000.

As per Ind AS, the Sale value as reflected in FS is ₹4,50,000 and ₹50,000 is the advance service fees received to be recognised in two subsequent years.	As per current AS the sale price would be ₹5,00,000	• Difference in timing of recognition of revenue • Whether to charge GST on ₹5,00,000 or ₹4,50,000? • The levy, value and year of levy of service tax on warranty cost would be different.

IND AS 21	AS-11	Impact
The Effects of changes in Foreign Exchange Rates	**Effects of changes in Foreign Exchange rates**	
Functional Currency approach is adopted	There is no concept of functional currency.	• Arithmetical differences may arise while changing the functional currency into reporting currency which may or may not be significant. • Functional currency approach could have significant implications on profitability if the reporting currency (say ₹) is not the functional currency. Difference in treatment between current AS and Income-tax Act,1961 already exist and will persist. • Translation gain/loss on conversion into presentation currency taken to OCI may lead to significant variation. • Taxability of forex gains/loss in regard to highly probable forecast transactions treated as cash flow hedge will be reflected in OCI. Deductibility for tax despite of Supreme Court decision in Woodword Governor is often a matter of litigation even presently. Present, Rule 115 of Income Tax Rules addresses this issue. Since, it is part of delegated legislation; the same can be amended to meet any specific issue.

IND AS 20	AS-12	Impact
Accounting for Government Grants and Disclosure of Government Assistance	**Government Grants**	
1. IND AS 20 does not permit direct credits to equity. Everything has to be routed through Income and Expenditure account or OCI	1. Adjustment to cost of asset is permitted.	• Significant impact on MAT • Difference in point of recognition
2. Grants in kind to be included in income at fair market value.	2. Grants in kind to be valued at ₹1	
Example:- A village in Tamil Nadu with a flourishing cottage industry was completely devastated due to flood. Cotex is a company exporting cottage industry products. The Government gave a grant of ₹5 crore to Cotex with a condition that at least 200 artisians from the village should be rehabilitated within three years of the commencement of the operations when the facilities are re-built. The Government released the first instalment of ₹1 crore immediately.		
The amount of ₹5 crore should be recognised over a period of three years within which the company is to spend the money. Although, the amount of ₹1 crore is received immediately, the conditions attached with the grant would be fulfilled over a period of three years. Hence the grant should be recognised on a systematic basis and not upon receipt of the grant.	The AS does not recognise such amortisation.	Such situations are not very common in a commercial context and therefore – the divergence arising in the accounting treatment may not be considered very important in the present context. In certain cases however where such situation exists, the impact could be material.
IND AS 40	**AS-13**	**Impact**
Investment Properties	**Accounting for Investments**	
Investment property is a property held for deriving revenue benefit but not like Plant and machinery for eg. Properties held by a broker dealing in buying and selling flats. 1. The investment properties held for trading are marked to market and are dealt with in Profit and Loss A/c whether realised or not. 2. The investment properties available for sale are taken to Other comprehensive income (OCI)	The Investments are valued at lower or cost or realisable value.	The impact may be significant and may actually lead to non-realised gains or losses. Ministry may consider whether this should be treated as distributable and/or taxable for MAT. An option is available to the corporate in respect of assets held for sale and held to maturity to make adjustments at fair value. The adjustments will be part of other comprehensive income and hence, not liable for MAT in view of the proposed amendment in Section 115JB. As regards, assets held for trading, the adjustments consequent to fair value is to be credited to the profit and loss account (not as other Comprehensive income) and the same will be part of distributable profits. So, there should be in no issue for taxing the same.
IFRS-3	**AS-14**	**Impact**
Business Combinations	**Accounting for Amalgamations**	
Accounting and tax treatment are vastly different. However since the tax treatment is largely independent of the treatment in books, at the moment the tax implications have not been crytalised. However attention is drawn to Section 72A of the Income-tax Act,1961 dealing with treatment of losses post-amalgamation.		
IND AS 19	**AS-15**	**Impact**
Employee benefits	**Employee Benefits**	
Actuarial gains and losses may be recognised immediately in profit and loss; or recognised immediately in other comprehensive income; or Deferred up to a maximum with any excess of 10 per cent of the greater of the defined benefit obligation or the fair value of the plan assets at the end of the previous reporting period being recognised over the expected average remaining lives of the participating employees or other accelerated basis.	Actuarial gains and losses should be recognised immediately in the statement of profit and loss as an income or expenses.	Impact will be only if OCI follows allowability of such expenses. Provision in Section 40A(7) of the Income-tax Act, 1961 differ today also hence not treated as a difference arising out of application of IND AS.
IND AS 23	**AS-16**	**Impact**
Accounting of Borrowing Costs	**Borrowing Costs**	
Interest income is recognised using the effective interest method when: • It is probable that the economic benefits associated with the transaction will flow to the entity and • The amount of the revenue can be measured reliably	Interest income is recognised only when no significant uncertainty as to measurability or collectability exists, on a time proportion basis taking into account the amount outstanding and the rate applicable. Usually, discount or premium on debt securities held is treated as though it were accruing over the period to maturity.	
Computation would result in controversy and litigation. 2. Imputed interest rate may arise without any borrowing but applying current value and fair value method.	Issue does not arise as no notional debits are allowed.	• Difference in rate adopted may lead manipulation. • Deduction of tax at source may not be possible as in case of notional interest there is no payee. • Problems of allowability under Section 36 (1) (iii) may arise as there is no capital borrowed which is a prerequisite for interest to be allowed. This would result in a divergences between interest debited under IND AS and the amount allowable as a deduction under the income tax provisions. • Point of commencement and cessation/suspension of interest capitaisation for qualifying asset as well as what is qualifying asset is different in IT Act and AS However these differences exist even under the present AS and therefore are not treated as arising out of IND AS application. • Assessees following different frameworks would result in items not corresponding with each other - leaving scope for divergence/possible manipulation.

Example:- • Similar issue would arise in case of a listed company following IND AS which takes loan from its associate concern at cheaper rate. Provision would be made in respect of interest which is not payable. Such interest would be debited as per IND AS (thereby reducing book profits – and in absence of specific amendment also the taxable income) and as per AS, as the same is not shown as income in the books of account of the associate concern.		
AS-17,18,20,25		
These are disclosure standards and do not have any tax impact.		
IND AS 17	**AS-19**	**Impact**
Leases	**Leases**	
Under IFRS converged standards, lease incentives have to be recognised by both the lessor and the lessee as a reduction from rental income and expense, respectively, over the lease term.		There are differences between the accounting and tax treatment even under the present AS and therefore the impact arising out of application of IND AS is not separately considered as differences between the accounting and tax treatment may persist.
AS-21,23,27		
These three standards deal with presentation in Consolidated Financial Statements, interest in joint venture, associates etc. Particularly, these are matters of presentation and the impact of fair value/ mark to market treatment is already dealt with in this note under respective standards. Hence except MAT impact , no other issues are specifically addressed in this regard.		
AS-22 -Accounting for taxes on income		
Except for MAT there is no major impact		
IND AS 38	**AS-26**	**Impact**
Intangible Assets	**Intangible assets**	
Goodwill is not depreciated. If the life of the asset is definite, the asset can be impaired/amortised depending upon the determination of its useful life. Where the life of the asset is indefinite, the asset cannot be amortised.	Goodwill is depreciated. Life of the asset is to be determined and asset is to be depreciated in all cases.	Effects will be similar to those of property, plant and equipment. – AS 6 & 10 r.w. IND AS 16.
IND AS 37	**AS-29**	**Impact**
Provisions, contingent liabilities and contingent assets	**Provisions, contingent liabilities and contingent assets**	
1. Recognition of provision		
A provision is recognised when an entity has a present obligation (legal or Constructive) as a result of a past event. E.g. Contaminated land – enterprise has no legal obligation, but meets widely publicised clean-up policy – Provide for constructive obligation.	Present obligation and not constructive obligation is the basis though some provisions may be needed in respect of obligations arising from normal practice, custom and a desire to maintain good business relations or to act in an equitable manner. E.g. Contaminated land – enterprise cleans up to meet legal requirements, which are virtually certain to be enacted soon after the year end- Provide for the expected obligation.	Income-tax recognises only legally enforceable liability. There are issues even presently in regard to deductibility of certain provisions. Many of these issues revolve primarily upon the facts of the case. Hence, the matter was not dealt with elaborately. However, upon application of IND AS the differences may be accentuated on account of recognition of constructive obligations.
Provision is based on best estimate with detailed guidelines. Employs statistical notion of expected value in estimating the settlement value.	Provision is based on best estimate.	Since a more elaborate and scientific method is prescribe d under IND AS the area of divergence with taxation would possibly reduce.
2. Discounting		
Where the effect of time value of money is material, the amount of provision is the present value of the expenditure expected to be required to settle the obligation. The discount rate is pre-tax rate that reflects the current market assessment of time value of money and risk specific to the liability. The discount rate does not reflect risk for which future cash flow estimates have been adjusted.	Discounting of liabilities is not permitted and provisions are carried at their fair value.	• Timing of allowability of discount • TDS issues • Gross or net of discount element? • Provisions should be reviewed at each balance sheet date and adjusted to reflect current best estimates.

■

CIRCULARS/NOTIFICATIONS

INDIRECT TAXES

A. SERVICE TAX

I. Notifications:

1. ***Notification No. 51-53/2010 ST dated 21.12.2010:*** Right to use packaged or canned software manufactured in India, pre-packed in retail packages for single use was exempt from service tax subject to certain conditions vide *Notification No. 2/2010 ST dated 27.02.2010.* Similarly, right to use packaged or canned software, *pre-packed in retail packages for single use* imported from outside India was exempt from service tax vide *Notification No. 17/2010 ST dated 27.02.2010.*

The above two notifications have been rescinded and a new notification has been issued providing the exemption to right to *use packaged or canned software* subject to certain new conditions. The new conditions *inter alia* specify that:

(a) such software manufactured in India/imported from outside India should be valued as per the provisions of Section 4A of the Central Excise Act, 1944 for the purpose of payment of excise duty/additional duty of customs leviable under Section 3(1) of the Customs Tariff Act, 1975;

(b) appropriate excise duties/custom duties including additional duty of customs should be paid in respect of such software manufactured in India/imported from outside India;

(c) a declaration to the effect that only the retail sale price of such software has been recovered from the customer should be made by the service provider on the invoice relating to such service.

2. ***Notification No. 54/2010 ST dated 21.12.2010:*** *Notification No. 24/2009 ST dated 27.07.2009* has been amended so as to extend the exemption hitherto available only in respect of management, maintenance or repair of roads to management, maintenance or repair of bridges, tunnels, dams, airports, railways and transport terminals as well.

3. ***Notification No. 55-57/2010 ST dated 21.12.2010:*** Service tax levy on transport of goods by the Government railways and transport of goods by rail otherwise than in containers would be applicable from April, 2011 instead of January, 2011. Consequently, exemption for transport of notified goods like defence military equipments, railways equipment/materials, postal mail bags by rail and abatement of 70 per cent of the gross amount charged for transport of goods by the Government railways and transport of goods by rail otherwise than in containers would be effective from April, 2011.

4. ***Notification No. 58/2010 ST dated 21.12.2010:*** Taxable services in relation to general insurance business provided under the 'Weather Based Crop Insurance Scheme' or the 'Modified National Agricultural Insurance Scheme', approved by the Government of India and Implemented by the Ministry of Agriculture have been exempted from the whole of service tax leviable thereon under Section 66 of the Act.

I. Circular

1. ***Circular No.132/1/2011-ST dated 12.01.2010:*** The circular has been issued to clarify that the activity of fumigation of export cargo including agricultural/horticultural produce, whether loaded into containers or otherwise is not a taxable service under 'cleaning services'. The reason for the same is that as per Section 65(24b) of the Finance Act, 1994, cleaning activity means cleaning of 'objects or premises' of (i) commercial or industrial buildings and premises thereof; or (ii) factory, plant or machinery, tank or reservoir of such commercial or industrial building and premises thereof. Fumigation of export cargo including agricultural/horticultural produce, whether loaded into containers or otherwise, therefore does not satisfy the statutory definition of 'cleaning activity' under Section 65(24b) of the Finance Act, 1994 and hence is not liable to service tax.

B.EXCISE

I. Notification:

1. ***Notification No. 35/2010-CE dated 21.12.2010 and 30/2010-CE (N.T.) dated 21.120.2010:*** Consequent to the changes made in the conditions for availing exemption of service tax in respect of right to use of packaged or canned software, following amendments have been made in excise duty provisions applicable in respect of packaged or canned software:

(a) *Notification No. 17/2010 CE dated 27.02.2010* providing exemption of excise duty on packaged or canned software has been withdrawn.

(b) *Notification No. 49/2008-CE (NT) dated 24.12.2008* has been amended to provide for an abatement of 15 per cent of excise duty from retail sale price of packaged or canned software.

II. Circular:

1. ***Circular No. 939/29/2010-CX dated 22.12.2010*** *: Notification Nos. 49/2003-CE & 50/2003- CE both dated 10.06.2003* provide full exemption from excise duties to goods cleared from industrial units in the states of Uttarakhand and Himachal Pradesh for a period of ten years from the date of commencement of commercial production. The exemption is available to new units set up or existing units which have undergone substantial expansion and commence commercial production before the cut-off date, that is, on or before 31.03.2010.

It has been clarified that in the following cases, the benefit of the excise duty exemption would continue to be available to eligible industrial units:

(a) Where a unit starts producing some new products after the cut-off date using plant and machinery installed up the said cut-off date and without any further addition to the plant and machinery.

(b) Where the installed capacity in a particular unit is upgraded after the cut-off date, so as to increase the efficiency of the machinery by installing ancillary machines or replacement of some parts, etc. but in such a way that it does not lead to increase in capacity of production.

(c) Where new dosage forms are manufactured after the cut-off date on the same line of production with the same machinery.

(d) Where a unit manufactures a new product by installing fresh plant, machinery or capital goods after the cut-off date.

However, the period of exemption would remain ten years and would not get extended on account of such modifications or additions under any circumstances.

C. CUSTOM

I. Notification:

1. ***Notification No. 126/2010 Cus. dated 21.12.2010:*** Consequent to the changes made in the conditions for availing exemption of service tax in respect of right to use of packaged or canned software, *Notification No. 31/2010-Cus. dated 27.02.2010* which provides exemption of customs duty on packaged or canned software has been withdrawn.

The complete text of the above-mentioned notifications and circulars can be downloaded from the following link: http://www.cbec.gov.in

(Matter on Indirect Taxes has been contributed by the Indirect Taxes Committee of the ICAI)

FEMA

1. Know Your Customer (KYC) norms/ Anti-Money Laundering (AML) standards/Combating the Financing of Terrorism (CFT)/Obligation of Authorised Persons under Prevention of Money Laundering Act, (PMLA), 2002, as amended by Prevention of Money Laundering (Amendment) Act, 2009- Money changing activities

RBI/2010-11/ 319 & 321 A.P. (DIR Series) Circular No. 25 & 27 and A.P. (FL/RL Series) Circular No. 06 & 08 dated December 22, 2010

RBI has vide circular A.P. (DIR Series) Circular No.17 {A.P. (FL/RL Series) Circular No.4} dated November 27, 2009 advised Authorised Persons (APs) to account risks arising from the deficiencies in AML/CFT regime of certain jurisdictions, as identified in the Financial Action Task Force (FATF) Statement (www.fatf-gafi.org), issued from time to time, while dealing with individuals or businesses from these jurisdictions.

FATF has issued a further Statement on June 25, 2010 on the captioned subject wherein the strategic AML/CFT deficient jurisdictions are divided into two groups and has called upon jurisdictions listed in the statement to complete the implementation of their action plan within the timeframe.

Accordingly, APs are advised to take into account risks arising from the deficiencies in AML/CFT regime of these countries, while entering into business relationships and transactions with persons (including legal persons and other financial institutions) from or in these countries/jurisdictions and are advised to consider the information contained in the above statement.

2. Know Your Customer (KYC) norms/Anti-Money Laundering (AML) standards/Combating the Financing of Terrorism (CFT)/Obligation of Authorised Persons under Prevention of Money Laundering Act, (PMLA), 2002, as amended by Prevention of Money Laundering (Amendment) Act, 2009-Cross Border Inward Remittance under Money Transfer Service Scheme.

RBI/2010-11/ 320 & 322 A.P. (DIR Series) Circular No. 26 & 28 and A.P. (FL Series) Circular No. 07 & 09 dated December 22, 2010

RBI has vide circular A.P. (DIR Series) Circular No.18 {A.P. (FL/RL Series) Circular No.5} dated November 27, 2009 advised Authorised Persons who are Indian Agents under Money Transfer Service Scheme (APs) to into account risks arising from the deficiencies in AML/CFT regime of certain jurisdictions, as identified in the Financial Action Task Force (FATF) Statement (www.fatf-gafi.org), issued from time to time, while dealing with individuals from these jurisdictions.

FATF has issued a further Statement on June 25, 2010 on the captioned subject wherein the strategic AML/CFT deficient jurisdictions are divided into two groups and has called upon jurisdictions listed in the statement to complete the implementation of their action plan within the timeframe.

Accordingly, APs are advised to take into account risks arising from the deficiencies in AML/CFT regime of these countries, while entering into business relationships and transactions with persons (including legal persons and other financial institutions) from or in these countries/ jurisdictions and are advised to consider the information contained in the above statement.

3. Use of International Debit Cards/ Store Value Cards/ Charge Cards/Smart Cards by resident Indians while on a visit outside India

RBI/2010-11/ 323 A.P. (DIR Series) Circular No. 29 dated December 22, 2010

In terms of circular A.P.(DIR Series) Circular No. 46 dated June 14, 2005 the banks authorised to deal in foreign exchange are required to submit a statement as on December 31, each year in case the aggregate forex utilisation by the International Debit Card holders exceeds USD 100,000 in a calendar year.

It has now been decided to discontinue the submission of the above mentioned statement and accordingly, banks authorised to deal in foreign exchange are advised to discontinue the submission of the aforementioned statement from the calendar year 2010 onwards.

4. Asian Clearing Union (ACU) Mechanism–Payments for import of Oil or Gas

RBI/2010-11/ 326 A.P. (DIR Series) Circular No. 30 dated December 23, 2010

In terms of Notification No.FEMA.14/2000-RB dated

May 3, 2000 read with items 7(b) and 7(e) of the Memorandum of Procedure for channeling transactions through ACU, all eligible current account transactions as defined by the Articles of Agreement of the International Monetary Fund and the export/import transactions between the ACU member countries on deferred payment terms respectively are to be routed through the ACU mechanism.

It has now been decided that payment for import of oil or gas should be settled in any permitted currency outside the ACU mechanism.

5. Asian Clearing Union (ACU) Mechanism – Indo – Iran Trade

RBI/2010-11/ 335 A.P. (DIR Series) Circular No. 31 dated December 27, 2010

Further to A.P. (DIR Series) Circular No. 30 dated December 23, 2010, RBI has decided that all eligible current account transactions including trade transactions with Iran should be settled in any permitted currency outside the ACU mechanism until further notice.

6. Comprehensive Guidelines on Over the Counter (OTC) Foreign Exchange Derivatives and Overseas Hedging of Commodity Price and Freight Risks

RBI/2010-11/ 338 A.P. (DIR Series) Circular No. 32 dated December 28, 2010

In the light of developments in the domestic and international financial markets, RBI has revised the extant guidelines on OTC foreign exchange derivatives, commodity price and freight risks in consultation with the banks, corporates and other stake holders. The revised comprehensive Guidelines on OTC Foreign Exchange Derivatives and Overseas Hedging of Commodity Price Risk and Freight Risk would be effective from February 01, 2011. Further, Comprehensive Guidelines on Derivatives issued by RBI on April 20, 2007 and subsequent amendments thereto would also apply, *mutatis mutandis*, to the foreign exchange derivatives.

The revised guideline is annexed to the above circular and is available on RBI website at: http://rbidocs.rbi.org.in/rdocs/notification/PDFs/281210AN_32.pdf

(Matter on FEMA has been contributed by CA. Manoj Shah and CA. Hinesh Doshi)

CORPORATE LAWS

1. Derivative Contracts on Foreign Stock Indices – Introduction of

www.sebi.gov.in

The SEBI has issued Circular No. CIR/DNPD/02/2011 dated 11.01.2011 deciding to permit Stock Exchanges to introduce derivative contracts in Futures and Options on foreign stock indices in the equity derivatives segment in accordance with the Guidelines mentioned in an Annexure enclosed to the above referred Circular. The Circular gives the eligibility criteria for introduction of derivatives by stock exchanges, consequences on failure to meet eligibility criteria, requirement of currency denomination to be Indian rupees, Risk Management Framework, Position Limits, Information Sharing requirements, Legal Compliance requirements, enforcement action covenants, trading to be done by Indian residents only, etc. One may refer to the above website for further details.

2. Amendments to SEBI Equity Listing Agreement

www.sebi.gov.in

The SEBI has issued Circular No. CIR/CFD/DIL/10/2010 dated 16.12.2010 amending the Equity Listing Agreement ("the LA") with respect to various continuous disclosures made by listed entities in relation to the following matters:

a) Amendments to Clause 35 – Disclosure relating to shareholding pattern (effective immediately)
   - Disclosure of shareholding pattern prior to listing of securities
   - Disclosure of shareholding pattern of listed entities pursuant to material changes in the capital structure
   - Disclosure in respect of Depository Receipts issued overseas

b) Amendments to Clause 40A – Minimum public shareholding (effective immediately)

c) Amendments to Clause 5A - Uniform procedure for dealing with unclaimed shares (effective immediately)

d) Amendment to Clause 20 and 22- Corporate Announcement (effective January 1, 2011)

e) Amendment to Clause 21 - Notice Period (effective January 1, 2011)

f) Insertion of Clause 53 - Disclosures regarding agreements with the media companies (effective immediately)

g) Insertion of Clause 54 – Maintenance of a website (effective April 1, 2011)

One may refer to the above website for further details.

3. Amendment to foreign venture capital investors ("FVCI") regulations

www.sebi.gov.in

The SEBI has issued Notification No. LAD-NRO/GN/2010-11/22/30364 dated 21.12.2010 amending the SEBI (Foreign Venture Capital Investors) Regulations, 2000 requiring the FVCIs to furnish firm commitment letter(s) from their investors for contribution of an amount aggregating to at least USD 1 million and also furnish copies of their financial statements as well as those of the investors' who have provided firm commitment letter(s), for the financial year preceding the one during which this application is being made. The FVCIs are also required to now furnish name, address, contact number and the e-mail address of all their directors. A requirement is also made in relation to furnishing of name, address, contact number and the e-mail address of all the investor(s) who have provided firm commitment letter(s). One may refer to the above website for further details.

4. Modifications to client code post trade execution

www.sebi.gov.in

The SEBI has issued Circular No. CIR/DNPD/01/2011 dated 03.01.2011 permitting stock exchanges modifications to client code post trade execution only in case of genuine error or wrong data entry made by trading members. This facility has been provided for the smooth functioning of the system and is expected to be used more as an exception rather than routine. In this regard, the stock exchanges are advised to set objective parameters for identification of client code modifications arising as a result of genuine error or wrong data entry. These objective parameters should be approved by the Governing Board of the Exchange and disclosed to the trading members. The stock exchange may impose monetary penalty in addition to disciplinary action against members who do not meet the laid down objective parameters and also include verification of client code modification as a reporting item in internal audit report of the trading members. One may refer to the above website for further details.

5. Regulatory Framework for Core Investment Companies (CICs)

www.rbi.gov.in

The RBI has issued Circular No. 206/03.10.001/2010-11 dated 05.01.2011 amending the definitions of 'Adjusted net worth' and 'Core Investment Company', 'Market value of quoted investments', 'Outside liabilities' and 'Systemically important core investment company'. The modified definition of 'Adjusted net worth' is as under :

'Adjusted net worth' means the aggregate, as appearing in the last audited balance sheet as at the end of the financial year, of Owned Funds as defined in Non Banking Financial (Non Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007;

i) as increased by :-

- 50 per cent of the unrealised appreciation in the book value of quoted investments as at the date of the last audited balance sheet as at the end of the financial year (such appreciation being calculated, as the excess of the aggregate market value of such investments over the book value of such investments); and
- the increase, if any, in the equity share capital since the date of the last audited balance sheet.

ii) as reduced by :-

- the amount of diminution in the aggregate book value of quoted investments (such diminution being calculated as the excess of the book value of such investments over the aggregate market value of such investments) and
- the reduction, if any, in the equity share capital since the date of the last audited balance sheet.

Explanation: Investments, shall include investment in shares, stock, bonds, debentures or securities issued by the Government or local authority or other marketable securities of a like nature.

The modified definition of "Core Investment Company" is as under:

"Core Investment Company" means a non-banking financial company carrying on the business of acquisition of shares and securities and which satisfies the following conditions as on the date of the last audited balance sheet:-

i. it holds not less than 90 per cent of its net assets in the form of investment in equity shares, preference shares, bonds, debentures, debt or loans in group companies;

ii. its investments in the equity shares (including instruments compulsorily convertible into equity shares within a period not exceeding 10 years from the date of issue) in group companies constitutes not less than 60 per cent of its net assets.

Net assets, for the purpose of this proviso, would mean total assets excluding –

- cash and bank balances;
- investment in money market instruments and money market mutual funds
- advance payments of taxes; and
- deferred tax payment.

iii. it does not trade in its investments in shares, bonds, debentures, debt or loans in group companies except through block sale for the purpose of dilution or disinvestment;

iv. it does not carry on any other financial activity referred to in Section 45 I (c) and 45 I (f) of the Reserve Bank of India Act, 1934 except:

- investment in
  - — bank deposits,
  - — money market instruments, including money market mutual funds,
  - — government securities, and
  - — bonds or debentures issued by group companies;
- granting of loans to group companies; and
- issuing guarantees on behalf of group companies.

Please refer to the above Circular for the other definitions and to the above website for further details.

6. Master Circulars issued by SEBI

www.sebi.gov.in

The SEBI has issued the following Master Circulars on 31.12.2010 in relation to various circulars/directions issued by it from time to time. In order to enable the users to have an access to all the applicable circulars at one place, the following Master Circulars are issued consolidating the circulars/directions issued by SEBI in this regard up to December 31, 2010 as listed in the Schedule to the respective Master Circular and which shall come into force from the date of its issue:

a) Master Circular for Stock Exchange - Cash Market (Circular No. CIR/MRD/DP/42/2010)

b) Master Circular for Stock Exchanges and Depositories (Circular No. CIR/MRD/DMS/40/2010)

c) Master Circular on Matters relating to Exchange Traded Derivatives (Circular No. CIR/DNPD/7/2010)

d) Master Circular for Depositories Circular No. (CIR/MRD/DP/ 41 /2010)

e) Master Circular on Administration of Stock Exchanges, Arbitration in Recognised Stock Exchanges and Stock Exchanges / trading platform for Small & Medium Enterprises including guidelines for Market Makers (Circular No. CIR/MRD/DSA/SE/43/2010)

One may refer to the above website for further details.

(Matter on Corporate Laws has been contributed

LEGAL DECISIONS[1]

DIRECT TAXES

Income-tax Act

Section 55 read with Section 45 of the Income-tax Act, 1961 – Capital Gains – Cost of acquisition

Where a firm was taken over as a going concern by a limited company in which partners of assessee firm were Directors, receipts for technical know-how and compensation of non-competing fees were nothing but a part of composite receipt to diminish value of assets of assessee firm; hence what had been done by assessee was to evade tax and not to avoid it [Assessment Year 1995-96]

Indo Tech Electric Co. v. Deputy Commissioner of Income-tax, December 16, 2010 (MAD)

Section 55 provides for the sale of goodwill after dissolution. After the dissolution of a firm goodwill shall be included in the assets. Therefore, in as much as a goodwill can be quantified by way of a sum, the assessee cannot avoid the same by terming it as technical know-how and compensation. When a business is destroyed the goodwill goes with it. A goodwill is determined by the nature of business, character, name and reputation, its location, its impact on the contemporary market, the prevailing socio economy and the absence of competition. A goodwill can be sold along with the business or independently. "Goodwill" was brought into tax with effect from 01.04.1988. Therefore, in a commercial and trading parlance, goodwill plays a pivotal roll and that is the reason why it has been brought into the tax net.

'Technical know-how' is defined as an intangible revenue producing asset which can be put to use so as to produce revenue in two ways. The manufacturer can use it himself to make things for sale and make profit in that way, or he can teach it to others, so that they can make their own things, in which case he gets paid for the knowledge and information which he imparts to them. His fees and rewards are then revenue in his hands. Under the Income-Tax Act, transfer of Technical know-how is subject to tax only from the Assessment Year 1998-99 by the amendment through Finance Act, 1997.

There were only two partners in the assessee firm which consisted of father and son. The assessee had been making good profit over the years. It was a concern running for the past 25 years profitably. It was taken over as a going concern by a limited company. The partners of the assessee firm were the Directors of the limited company. The limited company continued to function in the very same office in which the assessee firm was functioning earlier. The entire assets had been taken over by the limited company. The agreement between the assessee and the limited company did not make any mention about the payment received for the goodwill. The assesee was not involved in the sale of technical know-how.

The Madras High Court held that in as much as the assessee firm had been taken over as a going concern, it could not have been taken over without the so-called technical know- how. The assessee could not have sold the other tangible assets keeping with it the so- called technical know-how. Hence, the receipts for technical know-how and the compensation for non-competing fees were nothing but a part of composite receipt to diminish the value of the assets of the assessee firm. The assessee had termed the said amount as technical know-how in order to escape from the clutches of the provisions of Section 55(2) under which a goodwill amount is taxable.

There was no material on record to establish the cost of the technical know-how. There was also no material to quantify the amount shown as paid to the assessee for the transfer of the alleged technical know-how. As observed by the Tribunal and the Assessing Officer, there was no explanation as to why no amount had been received towards the goodwill considering the undisputed fact of the good performance of the assessee firm over the years before the transfer. The assessee had clearly attempted to evade tax by claiming the amount received as goodwill into one of technical know-how in order to evade tax. The assessee had tried to sell the old wine in a new bottle by characterising the receipt as technical know-how. It was not the case of the assessee that it had been selling the technical know-how to any other third party. The agreement also did not provide a clause to the effect that the assessee would not indulge in the same business. This was for the precise reason that the assessee had merely changed from being a partnership firm into one of a private company due to business and commercial expediency.

Similarly, the question of payment to be made as compensation by way of non- competing fee also would not arise, considering the fact that the assessee firm had been taken over as a going concern in its entirety by the new company. The partners of the assessee firm were the new Directors of the company. The consideration was paid to the assessee firm and not to the partners. There was no competition as alleged between the assessee firm and the new private limited company. There was also no contract between the partners of the assessee firm and the new private limited company. Hence, considering the above said factual position the Tribunal rightly held that the entire business of the assessee company was transferred.

Lifting the Corporate Veil

It is a well settled principle of law that what is permissible is avoidance but not evasion. When an attempt is made by a company to evade tax it is the bounden duty of the authorities to lift the corporate veil and find out the real intention behind the same. It is the duty of the Court in every case, where ingenuity is expended to avoid taxing and welfare legislations, to get behind the smoke screen and discover the true state of affairs. The Court is not to be satisfied with form and leave well alone the substance of a transaction.

Where the same persons entered into transactions though by introducing a corporate personality into some of those transactions, the income-tax authorities are entitled to pierce the veil of the corporate personality and look at the reality of the transaction.

In the instant case what had been done by the assessee is to evade tax and not to avoid it. The issue was therefore decided against the assessee.

[1] *Readers are invited to send their comments on the selection of cases and their utility at eboard@icai.org.*

Section 144C of the Income-tax Act, 1961 – Reference to Dispute Resolution Panel

Where in view of CBDT clarification the petitioner-assessee requested Dispute Resolution Panel to allow it to pursue normal appellate channel, but Dispute Resolution Panel concluded that assessee had chosen to withdraw objections filed before it, and thus, draft assessment order passed by Assessing Officer was correct; such order neither decided assessee's objection, nor provided assessee to prefer any appeal, and hence, suffered from vice

AIA Enginering Ltd. v. Dispute Resolution Panel, August 31, 2010 (GUJ)

During the course of assessment, a reference under Section 92CA for computation of arms length price in relation to international transaction was made with the approval of the Commissioner to the Transfer Pricing Officer. The Transfer Pricing Officer in his order made downward upward adjustment under Section 92CA. The Assessing Officer made an addition for downward adjustment. The Assessing Officer framed the draft assessment order under Section 144C. The petitioner submitted its objections to the Dispute Resolution Panel. The petitioner came to know that a clarification had been issued by the Central Board of Direct Taxes according to which a choice had been given to the assessee either to go before the Dispute Resolution Panel or prefer the normal appellate channel. The petitioner decided to exercise the option available to it and filed an appeal before Commissioner (Appeals). The petitioner, at the time of the first hearing filed an application and requested the Dispute Resolution Panel to pursue the normal appellate channel.

However *vide* its impugned order, the Dispute Resolution Panel observed that the petitioner-assessee had chosen to withdraw the objections filed before it, hence, draft assessment order passed by the Assessing Officer was held to be correct. The Dispute Resolution Panel further directed the Assessing Officer under Section 144C(5) to pass assessment order in consonance with the draft assessment order already passed by him. Being aggrieved, the petitioner moved the instant petition. During the pendency of the petition, the Assessing Officer had framed assessment pursuant to the direction issued by the Dispute Resolution Panel.

The Gujarat High Court held that the directions issued by the Dispute Resolution Panel makes it apparent that it had failed to consider the contents of the letter/application submitted by the assessee during the first hearing in proper perspective. A perusal of the application clearly indicated that there was no whisper regarding withdrawing the objections. By the said application the petitioner had only requested the Dispute Resolution Panel to give its consent to allow it to approach the assessing officer and requested him to issue the final order so as to enable the petitioner to avail of the appellate channel. Thus, if after considering the application if the Dispute Resolution Panel was of the opinion that it did not have the jurisdiction to give such consent or that as observed in of the impugned order, the assessee already having exercised the option to file objections, directions were required to be issued under Section 144C(5) and the Dispute Resolution Panel could have turned down the request made by the petitioner and rejected the application. However, the Dispute Resolution Panel instead, by observing that as the petitioner had chosen to withdraw the objections, the draft assessment order passed by the Assessing Officer was correct, and directing the Assessing Officer under Section 144C(5) to pass assessment order in consonance with the draft assessment order already passed by him, had totally non-suited the petitioner. If the Dispute Resolution Panel was of the opinion that the letter/application of the petitioner could not have been entertained, it should have considered the objections filed by the petitioner on merits. As a consequence of the impugned order, firstly the objections raised by the petitioner had not been decided; secondly, in view of the directions issued by the Dispute Resolution Panel the petitioner would not be in a position to avail of the remedy of appeal before Commissioner (Appeals) against the draft assessment order; and thirdly, in the light of the observation made by the Dispute Resolution Panel that the petitioner had chosen to withdraw the objections, preferring any appeal against the impugned order before any forum would be an exercise in futility, as no appeal would be entertained against an order passed on a concession. Thus, the Dispute Resolution Panel has virtually closed all doors for the petitioner. In the circumstances, impugned order of the Dispute Resolution Panel suffered from the vice of being contrary to the record as well as non-application of mind, inasmuch as the petitioner had never sought withdrawal of the objections filed by it. The impugned order also caused immense prejudice to the petitioner. Therefore, the impugned orders made by the Dispute Resolution Panel as well as assessment order made by the Assessing Officer were quashed and set aside.

Section 144C of the Income-tax Act, 1961 – Reference to Dispute Resolution Panel

Vodafone Essar Ltd. v. Dispute Resolution Panel, December 2, 2010 (DEL)

When a quasi judicial authority deals with a lis, it is obligatory on its part to ascribe cogent and germane reasons as the same is the heart and soul of the matter. And further, the same also facilitates appreciation when the order is called in question before the superior forum.

Section 158BD of the Income-tax Act, 1961 – Block Assessment in Search Cases – Undisclosed Income of any other Person

Before invoking Section 158BD to assess any third person other than one whose premises are searched, Assessing Officer is to be satisfied that any undisclosed income belongs to any third person's recording of "satisfaction" in writing is necessary precondition

Commissioner of Income-tax v. Raj Pal Bhatia, November 29, 2010 (DEL)

If during the search carried out at the premises of one person, some documents/material is found or asset seized etc. on the basis of which the Assessing Officer is satisfied that any undisclosed income belongs to a third person i.e. a person other than one whose premises were searched under Section 132, the procedure for carrying out block assessment in that eventuality is provided under Section 158. It was for this reason provisions of Section 158 BD were invoked in the case of these assessees.

Before invoking the provisions of Section 158 BD, the Assessing Officer of the person searched under Section 132 (1) must satisfy himself that some undisclosed income belongs to a person other than the persons with respect to whom search was made under Section 132 (1). Such satisfaction must be based on the material found in the course of search. In the absence of any such satisfaction (which is to be recorded in writing) the concerned Assessing Officer does not get any jurisdiction to assess that other person by invoking the Section 158 BD. Further, the satisfaction of the Assessing Officer has to be in respect of the aspects that i) there should be "undisclosed income" within the meaning of Section 158 (b) referable to the assets or books/documents found seized/requisitioned; ii) there should a finding by the Assessing Officer that there was undisclosed income in such assets or books of account or documents of the searched person; and iii) such undisclosed income belonged to the person other than the one searched.

During the search carried out at the premises of other person, no books of accounts or other documents or other assets pertaining to the assessees was found or seized. The entire foundation of the block assessment under Section 158 BD, in so far assessees were concerned, was the statement of the third party recorded during the course of search. The Assessing Officer before issuing notice under Section 158BD did not record any satisfaction.

The Tribunal had held that this statement could not be treated "books of accounts or other documents or assets" which only could be the basis for invoking the provision of Section 158 BD. Admittedly, statement of the third is neither "books of accounts" or "assets". The question, therefore, was as to whether this statement can be treated as "other documents".

The Delhi High Court held that *prima facie*, it is difficult to accept this proposition. Statement was not the document which was found during search. In fact this was the document which came to be created during the search as the statement was recorded at the time of search. Therefore, it could not be said that the statement was "seized" during the search and thus, would not qualify the expression "document" having been seized during the search. In such a scenario, proper course of action was reassessment under Section 147 read with Section 148.

In the instant case no such note of satisfaction before issuing notice under Section 158BD could be produced before the Tribunal. Therefore, no substantial question of law arose from the order of the Tribunal deleting addition.

Section 234A, 234B & 234C read with Chapter XIX-A and Section 154 of the Income-tax Act, 1961 - Interest Chargeable in Certain Cases

Sections 234A, 234B and 234C are applicable to proceedings of Settlement Commission under

Chapter XIX-A; terminal point for levy of interest under Section 234B would be up to date of order under Section 245D(1) and not up to date of order of Settlement under Section 245D(4)

Settlement Commission cannot reopen its concluded proceedings by invoking Section 154

Brij Lal v. CIT, October 21, 2010 (SC)

(I) Whether Sections 234A, 234B and 234C are applicable to Chapter XIX-A proceedings?

Though Chapter XIX- A is a self-contained Code, the procedure to be followed by the Settlement Commission under Sections 245C and 245D in the matter of computation of undisclosed income; in the matter of computation of additional income tax payable on such income with interest thereon; the filing of settlement application indicating the amount of income returned in the return of income and the additional income tax payable on the undisclosed income to be aggregated as total income shows that Chapter XIX-A indicates aggregation of incomes so as to constitute total income which indicates that the special procedure under Chapter XIX-A has inbuilt mechanism of computing total income which is nothing but assessment (computation of total income). To elaborate, under Section 245C(1B), if the applicant has furnished a return in respect of his total income, tax shall be calculated on the aggregate of total income returned and the income disclosed in the settlement application as if such aggregate were total income. Under the Act, tax is payable on the total income as computed in accordance with the provisions of the Act. Thus, Section 143(3) provision is sought to be incorporated in Section 245C. When Parliament uses the words "as if such aggregate would constitute total income", it presupposes that under the special procedure the aggregation of the returned income plus income disclosed would result in computation of total income which is the basis for the levy of tax on the undisclosed income which is nothing but "assessment". Similarly, Section 245C(1C) provides for deductions from the total income computed in terms of Section 245C(1B). Thus, the special procedure under Sections 245C and 245D in Chapter XIX-A shows that a special type of computation of total income is engrafted in the said provisions which is nothing but assessment which takes place at Section 245D(1) stage. However, in that computation, one finds that provisions dealing with a regular assessment, self-assessment and levy and computation of interest for default in payment of advance tax, etc. are engrafted.

(II) Terminal point for the levy of interest - Whether interest is payable under Chapter XIX-A up to the date of the order under Section 245D(1) or up to the date of the order under Section 245D(4)?

When the Settlement Commission accepts the Voluntary Disclosure vide the application for settlement, Section 234B(2) steps in. It is important to remember that the assessee is liable to pay advance tax, he commits default in payment to the extent of the undisclosed income but he offers to pay additional income tax then interest has to be calculated in accordance with Sections 207, 208 and 234B(2) up to the date on which such tax is paid. This is not the interest which assessee has to pay after assessment under Section 245D(4). Under Sections 245C(1B) and (1C) the additional amount of income tax payable on the undisclosed income shall be on the total income as calculated under Section 245C(1B). On computation of total income under Sections 245C(1B) and (1C), interest follows such computation. It is important to note that interest follows computation of total income. Once such computation takes place under Section 245C(1B) then Section 234B(2) applies. The said sub-section deals with the situation where before determination of total income under Section 143(1) or 143(3) tax is paid under Section 140A or otherwise interest shall be calculated in accordance with Section 234B(1) up to the date on which tax is so paid. In that sense an application under Section 245C(1) is a return. Section 245C(1) deals with computation of total income. Section 245D(1) provides for expeditious recovery of tax by way of pre-assessment collection. Interest on default in payment of advance tax comes under Sections 234A, 234B, 234C, which fall in Chapter XVII which deals with collection and recovery of tax. It is important to note that interest follows computation of additional payment of income tax under Sections 245C(1B) and (1C). This is how Sections 234A, 234B and 234C get engrafted into Chapter XIX-A at the stage of Section 245D(1). As stated, till the Settlement Commission decides to admit the case under Section 245D(1) the proceedings under the normal provisions remain open. But, once the Commission admits the case after being satisfied that the disclosure is full and true then the proceedings commence with the Settlement Commission. In the meantime, applicant has to pay the additional amount of tax with interest without which the application for settlement would not be maintainable. Thus, interest under Section 234B would be payable up to the stage of Section 245D(1).

Under Section 245C(1) read with Section 245C(1B)(ii) and Section 245C(1C)(b), the additional amount of income tax payable is to be calculated on the aggregate of total income returned and the income disclosed in the settlement application as if such aggregate is the total income. Thus, the scheme of the said sections is based on computation of total income and in that sense such application for settlement is akin to a return of income. The said provision deals with "total income". Thus, Sections 234A, B and C are applicable up to the stage of Section 245D(1) order passed by the Settlement Commission. However, Parliament has not extended the provisions and the liability to pay interest beyond the date of application for settlement. This is the position even after Finance Act of 2007. Once this position is taken, Section 140A is attracted. When an assessee has paid interest under Sections 234A, B and C in self-assessment under Section 140A, which is similar to the scheme of Section 245C(1), and once the Settlement Commission admits the application for settlement, one finds that even under Section 140A(1B) interest payable under Section 234B has to be computed on an amount equal to the assessed tax as defined in the Explanation to mean tax on the total income as declared in the return. Under sub-section (1B) to Section 140A interest payable under Section 234B can also be computed on an amount by which the advance tax paid falls short of the assessed tax as defined in the Explanation thereto. Thus, there is no provision under Chapter XIX-A or even under Section 140A (dealing with self-assessment) to charge interest beyond the date of application for settlement after the same is admitted by the Commission under Section 245D(1). Moreover, under the Act, there is a difference between assessment in law [regular assessment or assessment under Section 143(1)] and assessment by settlement under Chapter XIX-A. The order under Section 245D(4) is not an order of regular assessment. It is neither an order under Section 143(1) or 143(3) or 144. Under Sections 139 to 158, 5 the process of assessment involves the filing of the return under Section 139 or under Section 142; inquiry by the A.O. under Sections 142 and 143 and making of the order of assessment by the A.O. under Section 143(3) or under Section 144 and issuing of notice of demand under Section 156 on the basis of the assessment order. The making of the order of assessment is an integral part of the process of assessment. No such steps are required to be followed in the case of proceedings under Chapter XIX-A. The said Chapter contemplates the taxability determined with respect to undisclosed income only by the process of settlement/ arbitration. Thus, the nature of the orders under Sections 143(1), 143(3) and 144 is different from the orders of the Settlement Commission under Section 245D(4). The Act does not contemplate stay of the proceedings during that period, i.e., when the Settlement Commission is deciding whether to proceed or reject the settlement application. The jurisdiction of the Settlement Commission to proceed commences only after an order is passed under Section 245D(1). That, after making an application for settlement the applicant is not allowed to withdraw it [see Section 245C(3)]. Once the case stands admitted, the Settlement Commission shall have exclusive jurisdiction to exercise the powers of the Income Tax Authority. The order of Settlement Commission under Section 245D(4) shall be final and conclusive under Section 245I subject to two qualifications under which it can be recalled, viz., fraud and misrepresentation but even here it is important to note that under Section 245D(7) where the settlement becomes void on account of fraud and misrepresentation the proceedings with respect to the matters covered by the settlement shall be deemed to have been revived from the stage at which the application was allowed to be proceeded with by the Settlement Commission. This further supports the view that there are two distinct stages under Chapter XIX- A and that the Legislature has not contemplated the levy of interest between order under Section 245D(1) stage and Section 245D(4) stage. Thus, interest under Section 234B will be chargeable till the order of the Settlement Commission under Section 245D(1), i.e., admission of the case.

III. Whether the Settlement Commission can re-open its concluded proceedings by having recourse to Section 154 so as to levy interest under Section 234B, if

it was not done in the original proceedings?

Proceedings before Settlement Commission are similar to arbitration proceedings. It contemplates assessment by settlement and not by way of regular assessment or assessment under Section 143(1) or under Section 143(3) or under Section 144. In that sense, it is a Code by itself. It does not begin with the filing of the return but by filing the application for settlement. As stated above, under the Act, procedure for assessment falls in Chapter XIV (in which Section 154 falls) which is different from procedure for settlement in Chapter XIX-A in which Sections 245C and 245D fall. Provision for levy of interest for default in payment of advance tax under Section 234B falls in Chapter XVII which deals with collection and recovery of tax which as stated above is incidental to the liability to pay advance tax under Section 207 (which is also in Chapter XVII) and to the computation of total income in the manner indicated under Chapter XIX-A vide Sections 245C(1B) and 245C(1C) read with the provisos to Section 245C(1) on the additional income tax payable on the undisclosed income. Further, if one examines the provisions of Sections 245C(1B) and 245C(1C), one finds that various situations are taken into account while computing the additional amount of tax payable, viz., if the applicant has not filed his returns, if he has filed but orders of assessment are not passed or if the proceedings are pending for re-assessment under Section 147 (again in Chapter XIV) or by way of appeal or revision in connection with such re-assessment and the applicant has not furnished his return of total income in which case tax has to be calculated on the aggregate of total income as assessed in the earlier proceedings for assessment under Section 143 or under Section 144 or under Section 147 [see Section 245C(1B)]. The point to be noted is that in computation of additional income tax payable by the assessee, there is no mention of Section 154. On the contrary, under Section 245I the order of the Settlement Commission is made final and conclusive on matters mentioned in the application for settlement except in the two cases of fraud and misrepresentation in which case the matter could be re-opened by way of review or recall. Like ITAT, the Settlement Commission is a quasi-judicial body. Under Section 254(2), the ITAT is given the power to rectify but no such power is given to the Settlement Commission. Thus, the Settlement Commission cannot reopen its concluded proceedings by invoking Section 154. Lastly, one must keep in mind the difference between review/ recall of the order and rectification under Section 154. The Schedule of Chapter XIX-A does not contemplate invocation of Section 154 otherwise there would be no finality to the assessment by settlement which is different from assessment under Chapter XIV where there is an appeal, revision, etc. Settlement of liability and not determination of liability is the object of Chapter XIX-A.

Therefore, invocation of Section 154 (held to be inapplicable to Chapter XIX-A proceedings) cannot be justified.

Section 234A, 234B & 234C read with Section 115JAA of the Income-tax Act, 1961 - Interest Chargeable in Certain Cases

MAT credit admissible in terms of Section 115JAA has to be *set off against tax payable (assessed tax) before calculating interest under Sections 234A, B and C, and not after such calculation of interest*

Commissioner of Income Tax v. Tulsyan NEC Ltd, December 16, 2010 (SC)

Under Section 234B "assessed tax" means the tax on the total income determined under Section 143(1) or on regular assessment under Section 143(3) as reduced by the amount of tax deducted or collected at source in accordance with the provisions of Chapter XVII on any income which is subject to such deduction or collection and which is taken into account in computing such total income. The definition, thus, at the relevant time excluded MAT credit for arriving at assessed tax. This led to immense hardship. The position which emerged was that due to omission on one hand MAT credit was available for set off for five years under Section 115JAA but the same was not available for set off while calculating advance tax. This dichotomy was more spelt out because Section 115JAA did not provide for payment of interest on the MAT credit. To avoid this situation, Parliament amended *Explanation 1* to Section 234B by Finance Act, 2006 *w.e.f.* 1.4.2007 to provide along with tax deducted or collected at source, MAT credit under Section 115JAA also to be excluded while calculating assessedtax.

From the above, it is evident that any tax paid in advance/pre-assessed tax paid can be taken into account in computing the tax payable subject to one caveat, viz, that where the assessee on the basis of self computation unilaterally claims set off or MAT credit, the assessee does so at its risk as in case it is ultimately found that the amount of tax credit availed was not lawfully available, the assessee would be exposed to levy of interest under Section 234B on the shortfall in the payment of advance tax. The case of the Department could not be accepted because it would mean that even if the assessee does not have to pay advance tax in the current year, because of his brought forward MAT credit balance, he would nevertheless be required to pay advance tax, and if he fails, interest under Section 234B would be chargeable. The consequence of adopting the case of the Department would mean that MAT credit would lapse after five succeeding assessment years under Section 115JAA(3); that no interest would be payable on such credit by the Government under the proviso to Section 115JAA(2) and that the assessee would be liable to pay interest under Sections 234B and C on the shortfall in the payment of advance tax despite existence of MAT credit standing to the account of the assessee. Thus, despite MAT credit standing to the account of the assessee, the liability of the assessee gets increased instead of it getting reduced.

Section 234B read with Section 115JA of the Income-tax Act, 1961- Interest for defaults in payment of advance tax

Advance tax was payable on book profits under Section 115JA interest under Section 234B can be charged on tax calculated on book profits under Section 115JA

Jt. CIT v. Rolta India Ltd, January 7, 2011 (SC)

Section 234B lays down that where advance tax is required to be paid under Section 208 and there is a failure on that if the amount of advance tax paid under Section 210 is less than 90 per cent of the assessed tax, then, in that case the assessee is liable to pay interest. Section 234C refers to interest for deferment of advance tax. It says that if the assessee has to pay advance tax on its current income.

Section 115J/115JA are special provisions. Section 207 envisages that tax shall be payable in advance during any financial year on current income in accordance with the scheme provided in Sections 208 to 219 (both inclusive) in respect of the total income of the assessee that would be chargeable to tax for the assessment year immediately following that financial year. Section 215(5) of the Act defined what is "assessed tax", i.e., tax determined on the basis of regular assessment so far as such tax relates to income subject to advance tax. The evaluation of the current income and the determination of the assessed income had to be made in terms of the statutory scheme comprising Section 115J/115JA. Hence, levying of interest was inescapable. The assessee was bound to pay advance tax under the said scheme of the Act. Section 115J/115JA of the Act were special provisions which provided that where in the case of an assessee, the total income as computed under the Act in respect of any previous year relevant to the assessment year is less than 30 per cent of the book profit, the total income of the assessee shall be deemed to be an amount equal to 30 per cent of such book profit. The object is to tax zero-tax companies.

It is clear from reading Sections 115JA and 115JB that the question whether a company which is liable to pay tax under either provision does not assume importance because specific provision(s) is made in the section saying that all other provisions of the Act shall apply to the MAT Company (Section 115JA(4) and Section 115JB(5)). Similarly, amendments have been made in the relevant Finance Acts providing for payment of advance tax under Sections 115JA and 115JB. So far as interest leviable under Section 234B is concerned, the section is clear that it applies to all companies. The pre-requisite condition for applicability of Section 234B is that assessee is liable to pay tax under Section 208 and the expression "assessed tax" is defined to mean the tax on the total income determined under Section 143(1) or under Section 143(3) as reduced by the amount of tax deducted or collected at source. Thus, there is no exclusion of Section 115J/115JA in the levy of interest under Section 234B. The expression "assessed tax" is defined to mean the tax assessed on regular assessment which means the tax determined on the application of Section 115J/115JA in the regular assessment.

Interest under Sections 234B and 234C shall be payable on failure to pay advance tax in respect of tax payable under Section 115JA/115JB. In Circular No. 13/2001 dated 9.11.2001 issued by CBDT reported in 252 ITR (St.) 50, it has been clarified that Section 115JB is a self-contained code and thus, all companies were liable for payment of advance tax under Section 115JB and consequently provisions of Sections 234B and 234C imposing interest on default in payment of advance tax were also applicable.

Section 254 of the Income-tax Act, 1961 – Appellate Tribunal – Orders of

Income-tax Appellate Tribunal under certain circumstances can recall its own order and there is no absolute prohibition

Lachman Dass Bhatia Hingwala (P.) Ltd. v. Assistant Commissioner of Income-tax, December 24, 2010 (DEL) (FB)

In *Honda Siel Power Products Ltd. v. Commissioner of Income-tax*, [2007] 295 ITR 466 the Supreme Court held that without going by the doctrine or concept of inherent power and simply proceedings on the basis that if prejudice had resulted to the party, which prejudice is attributable to the Tribunal's mistake, error or omission and which error is a manifest error then the Tribunal would be justified in rectifying its mistake. It was further held that the fundamental principle is that no party appearing before the tribunal should suffer on account of any mistake committed by the tribunal and no prejudice is caused to either of the parties before the tribunal which is attributable to the Tribunal's mistake, omission or commission and if the same error is a manifest error, then the Tribunal would be justified to recall.

What has been stated by the Apex Court in *Honda Siel Power Products Ltd.*, (supra) is based on the doctrine of prejudice. The Court was not proceeding on the doctrine or concept of inherent power. Analysed from this perspective, there can be no trace or shadow of doubt that the said decision is an authority for the proposition that the tribunal in certain circumstances can recall its own order and Section 254(2) of the Act does not totally prohibit so. Therefore, it was to be held that Income-tax Appellate Tribunal under certain circumstances can recall its own order and there is no absolute prohibition.

The Tribunal, while exercising the power of rectification under Section 254(2), can recall its order in entirety if it is satisfied that prejudice has resulted to the party which is attributable to the Tribunal's mistake, error or omission and which error is a manifest error and it has nothing to do with the doctrine or concept of inherent power of review.

Section 260A of the Income-tax Act, 1961 – Appeals to High Court

Commissioner of Income Tax v. West Bengal Infrastructure Development Finance Corporation Ltd, December 10, 2010 (SC)

In cases where there is delay on the part of the Department, the High Court should consider imposing costs but certainly it should examine the cases on merits and should not dispose of cases merely on the ground of delay, particularly when huge stakes are involved. ■

FM: No Cut in Direct Tax Rates, Stimulus to Continue

Finance minister Pranab Mukherjee may not tinker with tax rates in Budget 2011-12, but could instead focus his energies on development of infrastructure and stepping up investments in research and development activities. In his customary pre-Budget meeting with industry captains recently, Mukherjee expressed concern over rising food prices and sought India Inc's help to reduce them. He also ruled out a cut in the direct tax rates, but indicated that the stimulus measures may continue. Calling on suggestions for sustaining double digit growth in industry and for stepping up the growth of manufactured exports, the minister said, the government is conscious of two major concerns relating to the pace of development of infrastructure and investments in research and development, which have a direct bearing on the productivity of Indian enterprise. He also sought reasons from India Inc on why corporate tax collections are not keeping up with the expected trend.

*(**Source:** http://www.hindustantimes.com)*

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Higher Threshold Set for Mandatory Audit of Transactions

The government is set to raise the threshold for independent verification of corporate transactions in the Companies Bill, diluting a proposal it made before a key Parliamentary panel. The threshold would now be fixed at 1 per cent of a company's annual turnover as against 5 lakh suggested by the corporate affairs ministry before the Parliamentary Standing committee on finance. This means auditors would have to verify all transactions above the 1 per cent threshold with counter parties, such as banks, to ensure their authenticity. "The proposal to raise the threshold of transactions that would require an independent verification from auditors merit consideration," said a senior official in the ministry of corporate affairs, adding that representation in this regard has been made by the industry. As of now, an audit is primarily a review of a company's financial statement to establish its truth and fairness. Auditors usually do not go into the veracity of the numbers. The move to get the transactions independently verified is aimed at checking corporate frauds, like the one involving Satyam Computer Services (now called Mahindra Satyam). The relaxation, however, comes with a rider. The government would prescribe a stringent set of internal audit norms which companies would be required to follow. The Bill would also give 'audit standards' a statutory recognition, meaning a violation would attract penal action.

*(**Source:** http://economictimes.indiatimes.com/)*

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India Seeks Financial Sector Audit by World Bank, IMF

After carrying out a comprehensive health check-up of the financial sector in 2009, India has sought an assessment under the Financial Sector Assessment Programme (FSAP) of the International Monetary Fund (IMF) and the World Bank. India did a self-assessment (by the Committee on Financial Sector Assessment, or CFSA) of its financial sector in 2009. This has given us the confidence to get our financial sector evaluated by international financial institutions like IMF and the World Bank. We have voluntarily sought a full-fledged Financial Sector Assessment Programme, Finance Minister Pranab Mukherjee said at the second International Finance Conference at the Indian Institute of Management, Calcutta. Referring to the Financial Stability and Development Council (FSDC), Mukherjee said the government would set up a Financial Sector Legislative Reforms Commission to rewrite and clean up financial sector laws. Without prejudice to the autonomy of market regulators, FSDC will undertake macro-prudential supervision of the economy, including functioning of large financial conglomerates, and address inter-regulatory coordination issues, he said.

*(**Source:** http://www.business-standard.com)*

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Government Mandates Cost Audits for Over 100 Companies

The government has mandated cost audits for over 100 companies, covering a host of sectors including pharmaceuticals, fertilisers, steel and petroleum. Cost audit, which is a system of government scrutiny into a company's production cost and profit margins, is currently mandated for only 44 products in sectors like manufacturing, mining and services. The Cost Audit Branch (CAB), a department under the ministry of corporate affairs, in an order issued recently, has asked 115 companies to file their cost audit report for the year ending March 31, 2011. The present list of companies, which also includes many small and mid-cap companies has been formed, on the basis of recommendations made by sectoral regulators, in order to keep a track of the costing structure of these companies, said an official in the ministry of corporate affairs, without mentioning details about any firm in particular. The present order has been passed under Section 233B of the Companies Act, which gives the government an authority to call for such an audit if it considers it to be necessary. The government has the power to ask the registrar of companies to inspect the books of any company if any discrepancy is noticed in the cost audit report.

*(**Source:** http://beta.profit.ndtv.com/news)*

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Supreme Court stays Delhi High Court's Service Tax Order on Rent

The Supreme Court has stayed an order of the Delhi High Court, which stopped the Centre from recovering service tax on renting of immovable property for commercial use, including shops and malls, from some firms. A Supreme Court bench comprising Justices Mukundakam Sharma and A R Dave stayed the interim order passed by the Delhi High Court on May 18, 2010. The Centre has challenged the order. "There shall be an interim stay of the operation of the impugned judgement till the next date," said the apex court, directing that the matter be listed for next hearing on January 20. The High court, allowing the appeal of around 20 firms, had stayed the amendments made by the government in the Budget, 2010-11.

*(**Source:** http://www.financialexpress.com/)*

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Health, Education may Come Under Service Tax Ambit

The finance ministry is likely to impose service tax on health and education in the forthcoming Union Budget at a rate lower than the 10 per cent currently levied on 117 services as it seeks to cautiously expand the tax base to the two sensitive sectors. A lower duty is expected to make taxation acceptable in these sectors, where taxation and profiteering are generally not tolerated by the public. Although the proposed goods and services tax (GST) aims at a single rate for service tax, a dual rate structure could be the order of the day for the services sector initially. The rates would be converged in due course. Once approved, the proposal could bring health sector services like lab testing and education sector services like training institutes along with few others in the tax net. A few other services in these two sectors are also being examined for taxation but a list is yet to be finalised. The finance ministry would also introduce codes for the services sector similar to the codes that exist for customs and excise tariff, said a person familiar with the development.

*(**Source:** http://beta.profit.ndtv.com/news)*

SC: Pay Excise Duty on Promotional Samples Supplied to Doctors

Drugs manufacturers will now have to pay appropriate excise duty on promotional samples supplied to doctors, the Supreme Court has ruled. "Excise duty is payable even in case of free supply since sale is not a necessary condition for charging duty under the act (Central Excise Act, 1944)," a bench comprising Justice DK Jain and Justice HL Dattu said in its judgement. The court dismissed two appeals of Medley Pharmaceuticals which had said that physician samples were not excisable goods because they were statutorily prohibited from being sold under the Drugs and Cosmetics Act 1940 and Rule 65 (18) of the Drugs Rules. The bench argued that the companies made the products for selling them in the market and then chose to give away some units as free samples; they were simply advertising their goods, it was their choice.

*(**Source:** http://economictimes.indiatimes.com/)*

Govt Mulls Tax Amnesty Scheme

Amid mounting pressure to crack down on black money, the revenue department is contemplating a scheme to unearth such funds. The options under consideration include a tax amnesty scheme to get back ill-gotten wealth parked overseas. While I-T officials said that a scheme to unearth black money was under discussion in the finance ministry, they added that it was a preliminary brainstorming session and might not actually be announced. In the past too, at least on two occasions, there was talk of a tax amnesty scheme being introduced but finance ministers stayed away from any such proposal. When asked, CBDT chairman Sudhir Chandra refused to comment on the issue. The government had last introduced a tax amnesty scheme the Voluntary Disclosure of Income Scheme in 1997-98, which had helped unearth close to ₹10,000 crore.

*(**Source:** http://www.thehindubusinessline.com/)*

IAASB Proposes Assurance Standard to Strengthen Reporting on Greenhouse Gases

The International Auditing and Assurance Standards Board (IAASB) recently released for comment proposed new International Standard on Assurance Engagements (ISAE) 3410, *Assurance Engagements on Greenhouse Gas Statements.* Proposed ISAE 3410 has been developed through a robust program of consultation, including a series of global roundtables and feedback received on an earlier Consultation Paper. The proposed standard addresses the practitioner's responsibilities in identifying, assessing, and responding to risks of material misstatement, and contains illustrative assurance reports on greenhouse gas statements. The proposed requirements and guidance also recognise that most engagements will be undertaken by a multidisciplinary team, so they address the need for the assurance practitioner to integrate experts in engineering or environmental science, for example into various stages of the engagement. The proposed standard can be applied to a broad range of circumstances, including emissions from electricity used at a single office; emissions from complex physical or chemical processes at several facilities; or emissions calculated using information from multiple entities in a supply chain.

Source: *http://press.ifac.org/news/*

IAASB Invites Comment on Its Future Strategy and Work Program; Makes Progress on Current Initiatives

The International Auditing and Assurance Standards Board (IAASB) recently released for comment its *Proposed Strategy and Work Program for 2012–2014.* The Consultation Paper was developed with input from the IAASB's April 2010 strategy survey and other consultation and outreach activities. It highlights issues facing the accounting profession and suggests priority activities for the IAASB during 2012–2014.The IAASB is proposing to remain focused on three strategic areas: Developing and revising standards and pronouncements; Monitoring and facilitating adoption of those standards; and Responding to implementation concerns and improving the consistency of the standards' practical application.

Source: *http://press.ifac.org/news/*

IFRS Foundation Concludes Pilot XBRL Initiative with Public Companies Listed in the US

The IFRS Foundation has successfully concluded the pilot initiative that it launched in April to work with US-listed foreign companies to produce IFRS financial reports in XBRL (eXtensible Business Reporting Language) that are compliant with US SEC (United States Securities and Exchange Commission) requirements. The aim of the initiative was to: support preparers who use the IFRS Taxonomy in meeting the ruling issued by the US SEC on December 17, 2008 which requires all US-listed foreign private issuers to submit their IFRS financial reports, including their periodic reports, in Interactive Data format, and specifically in XBRL, from June 15, 2011 and to engage with preparers using the IFRS Taxonomy and obtain feedback on the usability of the taxonomy.

Source: *http://www.ifrs.org/News/*

IFRS Foundation Publishes Proposed IFRS Taxonomy 2011

The IFRS Foundation recently published for public comment, an exposure draft of the IFRS Taxonomy 2011. The proposed taxonomy is consistent with IFRSs (International Financial Reporting Standards), including IASs (International Accounting Standards) and the IFRS for SMEs (Small and Medium-sized Entities).The IFRS Taxonomy 2011 is a translation of IFRSs as issued at January 1, 2011 into XBRL (eXtensible Business Reporting Language). XBRL is rapidly becoming the format of choice for the electronic filing of financial information—particularly within jurisdictions reporting under IFRSs—because it facilitates simpler and faster filing and comparison of IFRS financial data by companies, regulators, investors, analysts and other users of financial information. From an architectural framework perspective, the 2011 taxonomy is consistent with the architecture established for the 2010 taxonomy as part of the Interoperable Taxonomy Architecture project, which will support existing users of the taxonomy and also software developers. In terms of financial reporting content, the scope of the 2011 taxonomy has been expanded to include IFRS application and implementation guidance and IFRS illustrative examples that are commonly used by entities. This is intended to reflect IFRSs more comprehensively, thereby supporting preparers of IFRS financial statements in XBRL format. The 2011 taxonomy also consolidates all IFRS Taxonomy interim releases that were published in 2010 for the use of early adopters wishing to report new IFRSs and improvements to IFRSs issued by the IASB (after the release of the 2010 taxonomy on April 30, 2010) in XBRL format. The exposure draft IFRS Taxonomy 2011 is open for comment until March 18, 2011. IFRSs issued by the IASB from January 1, 2011 will be published as interim releases for the 2011 taxonomy following the publication of the final taxonomy at the end of March 2011.

Source: *http://www.ifrs.org/News/*

ACCOUNTANT'S BROWSER

"PROFESSIONAL NEWS & VIEWS PUBLISHED ELSEWHERE"

Index of some useful articles taken from Periodicals/Newspapers received during December 2010 – January 2011 for the reference of Faculty/Students & Members of the Institute.

1. ACCOUNTING

Gaps in Gaap – IFRS convergence roadmap by dolphy D'souza. *BCAJ,* December2010, pp.105-106.

IFRS reconstructs The Accounting for public private partnerships ('PPP') by Jamil Khatri & Akeel Master. *BCAJ,* December 2010, pp.99-103.

2. AUDITING

Audit partner tenure & Audit planning & pricing by J.C. Bedard & K.M. Johnstone. *Auditing: A Journal of Practice & Theory,* November 2010, pp.45-70.

Do abnormally high Audit fees impair Audit quality? by Jong-Hag Choi, etc. *Auditing: A Journal of Practice & Theory,* November 2010, pp. 115-140.

Education requirements, Audit fees, & Audit quality by Arthur Allen & Angela Woodland. *Auditing: A Journal of Practice & Theory,* November 2010, pp. 1-25.

How do Audit workpaper reviewers cope with the conflicting pressures of detecting misstatements & balancing client workloads? by Christopher P. Agoglia, etc. *Auditing: A Journal of Practice & Theory,* November 2010, pp. 27-43.

Internal Audit: Retail analytics using computer-assisted Audit tools & techniques by Deepjee Singhal & Manish Pipalia. *BCAJ*, December 2010, pp. 109-111.

Litigation risk & Audit firm characteristics by Jeffrey R. Casterella, etc. *Auditing: A Journal of Practice & Theory,* November 2010, pp. 71-82.

3. EDUCATION

Media's assessment on governance of Higher Education: A critique by Dharmesh Dhawankar. *University News,* December13-19, pp.1-6+21.

Value-based Higher Education: some reflections from the global scenario by S.K.G. Ganesh. *University News,* December 06-12, 2010, pp.1-8.

4. ECONOMICS

Deficit fundamentalism vs fiscal federalism: Implications of 13[th] Finance Commission's recommendations by Pinaki Chakraborty.*Eco. & Pol. Weekly,* November 27, 2010, pp.56-63.

The 13[th] Finance commission's report: conundrum in conditionalities by M. Govinda Rao. *Eco. & Pol. Weekly,* November 27, 2010, pp.46-54.

Finances of non-government non-financial private ltd. Companies, 2008- 09 by Company Finances Division, *RBI Bulletin,* Nov. 2011, pp.2341-2371.

Global financial crisis & the Indian Economy by Deepak Mohanty, *RBI Bulletin,* November. 2010, pp.2331-2340.

5. INVESTMENT

A Competitive analysis of Business Valuation services by Michael A. Crain. *Journal of Accountancy,* November. 2010, pp.36-40.

Intangible assets & value relevance: evidence from the Portuguese stock exchange by Lidia Oliveira, etc. *The British Accounting Review,* Vol.42/2010, pp.241-252.

Media mix elements affecting brand equity: A study of the Indian passenger car market by Tanmay Chattopadhyay, etc. *IIMB Management Review, IIMB Management review,* Vol.22, 2010, pp.173-185.

Shareholders' requirements for Corporate environmental disclosures: A cross country comparison by C.D. Villiers & C.J.V. Staden. *The British Accounting Review,* Vol.42, 2010, pp.227-240.

Venture capital & efficiency of portfolio companies by A. Thillai Rajan. *IIMB Management Review,* Vol.22, 2010, pp. 186-197.

6. MANAGEMENT

Asian small business blitz by Gavan Ord. *In the black,* December 2010, pp.52-53.

The Big idea: The case for professional boards by Robert C. Pozen. *Harvard Business Review,* December2010, pp.50-84.

Corporate governance & information asymmetry between managers & investors by Denis Cormier, etc. *Corporate Governance,* Vol.10/5, 2010, pp.574-589.

Intrepreneurs & Innovation by Mary B. Curtis & Lawrence Chui. *Strategic Finance,* November 2010, pp.49-53.

7. TAXATION & FINANCE

Cross-border mobility of companies in the European union: Tax competition & increased scope for the CCCTB following cartesio by Luca Cerioni. *Bulleting for International Taxation,* December 2010, pp.636-645.

8. Information Technology

Information technology governance: an evaluation of the theory-practice gap by Denise Ko & Dieter Fink. *Corporate Governance,* Vol.10/5, 2010, pp. 662-674.

Demystifying XBRL by Meena Jha & Vinod Kashyap. *BCAJ,* December2010, pp. 11- 14.

9. Corpoarte Governance

Corporate governance rating & financial performance: a Canadian study by Sylvie Berthelot, etc. *Corporate Governance,* Vol.10/5, 2010, pp. 635-646.

Full Texts of the above articles are available with the Central Council Library, ICAI, which can be referred on all working days. For further inquiries please contact on 011-23370154 or by e-mail at library@icai.org

Office of the Comptroller and Auditor General of India Empanelment of Chartered Accountant Firms for the Year 2011-2012

Applications are invited ***online*** from the firms of Chartered Accountants who intend to be empanelled with this office for the year 2011-2012 for appointment as auditors of Government Companies/Corporations. The format of application will be available on our website: www.cag.gov.in from 1st January, 2011. Chartered Accountant firms can apply/update the data showing the status of the firm as on 1st January, 2011, till 31st March, 2011 and generate online acknowledgement letter for the year. Only firms who have generated online acknowledgement letter for the year 2011-2012 will be considered for empanelment.

Any changes in the constitution of the firm occurring after the cutoff date of 1st January, 2011 should continue to be updated by the CA firms in the website which will be available throughout the year. However, the changes in the firm occurring after 1st January, 2011 till the time of preparing the panel that will lead to a reduction in the rank of the applicant firm shall only be taken into account for ranking the CA firms.

Sd/-
Director General (Commercial)

Campus Placement Programme for Newly Qualified Chartered Accountants –February-March, 2011

The Committee for Members in Industry of the Institute organises Campus Placement Programme for newly qualified Chartered Accountants at various centres all over India. The scheme has been evolved to provide an opportunity both to employing organisations as well as the young professional aspirants to meet and explore the possibility of taking up positions in Industry.

Invitation to Organisations/CA Firms

Campus Placement Programme will be organised at various centres viz. Ahmedabad, Bangalore, Baroda, Bhubaneswar, Chennai, Coimbatore, Ernakulam, Hyderabad, Indore, Jaipur, Kanpur, Kolkata, Ludhiana, Mumbai, Nagpur, New Delhi and Pune. The schedule of programme is given below:

The programme would be organised in the months of February-March, 2011 for the candidates who would be passing in the CA Final examination held in November 2010 and also for others who are eligible.

Organisations intending to recruit Newly Qualified Chartered Accountants through the scheme are requested to get in touch with Secretary, Committee for Members in Industry, Indraprastha Marg, New Delhi -110002 and Tel. No. (011) 30110450/548 E-mail:placements@icai.org, mii@icai.org .

The complete details of the programme are hosted on www.cmii.icai.org.

Chairman
Committee for Members in Industry

S No.	Centre	Dates
1	Bhubaneswar, Ernakulam, Kanpur and Ludhiana	February 21 & 22, 2011
2	Baroda, Coimbatore, Indore and Nagpur	February 23 & 24, 2011
3	Ahmedabad, Jaipur and Pune	February 24, 25 & 26, 2011
4	New Delhi *, Hyderabad and Kolkata	March 15, 16, 17 & 18, 2011
5	Bangalore #, Mumbai and New Delhi	March 22, 23, 24, 25 & 26, 2011

**New Delhi on 19th March, 2011 also*
#Bangalore only on March 22, 23, 24 and 25 2011

Invitation For Articles

The Committee on Management Accounting (CMA) of ICAI invites research articles, case studies, write-ups and other similar materials in the areas of Management Accounting and Financial Management for publishing in its journal. The Institute proposes to publish a quarterly journal 'Management Accounting and Business Finance' with an object of spreading the advanced knowledge on Management Accounting and allied areas which are relevant for the members of the profession and others concerned. The Journal is to focus on practical articles for advanced and research oriented knowledge.

The articles submitted for consideration of publication should be of 4000-6000 words typed double spaced on A4 size paper with 1 inch margin all round. In order to facilitate the blind review process, the author should not mention his/her name on the body of the manuscript. Three hard copies of manuscript along with a soft copy (MS WORD) may be sent at the following address:

Secretary, Committee on Management Accounting (CMA),
ICAI Bhawan, Second Floor,
A-29, Sector-62,
Noida – 201 309 (U.P.)
Phone: 0120 – 3045910
E-mail: cma@icai.in; zaidi@icai.org

Authors may note that in appreciation of their contribution to the MABF Journal an honorarium of ₹5,000/- per article would be paid to them.

Detailed Guidelines for writing the articles are available on the website of Committee at www.icai.org

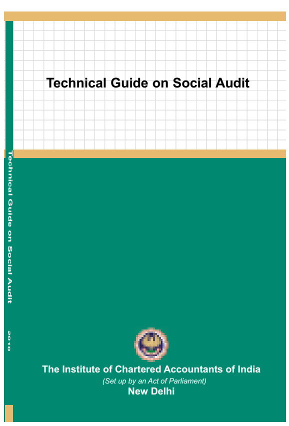
The Editorial Board hopes that professionals and other experts will come forward to share their expertise and practical experience with our readers by preparing the papers in view of the specific requirements of the accounting profession.

Chairman,
Committee on Management Accounting (CMA)
ICAI, New Delhi

New Publications

Technical Guide on Social Audit
(Pages: 88 + 9 Initial pages+ 2 Cover pages)
Price: ₹150/- *(including CD)*

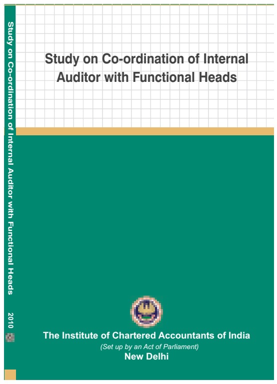
Social audit is an emerging tool which enables organisations and agencies to assess and demonstrate their social, community and environmental benefits and limitations. It is a way to measure the extent to which an organisation lives up to the shared values and objectives it has committed itself to promote. Considering the crucial role played by Social audit as a tool in offering a road map on how to move forward productively on social issues and for addressing stakeholder concerns, the Internal Audit Standards Board of the Institute of Chartered Accountants of India has taken the first step in this direction by issuing this **"Technical Guide on Social Audit"** that deals comprehensively with social audit as an efficient tool for promoting accountability and the related concepts and practices in detail.



Significant features of the Technical Guide are:

- Provides in depth understanding of the concept of Social Audit.
- Extensive knowledge about need for social auditing, various contexts of social auditing, regulatory and voluntary codes for social audit, framework for social auditing, data for social auditing and operationalising social auditing in India.
- Brief overview of role of Chartered Accountants in social audit.
- Includes Sample Social Audit Questionnaires with respect to MGNREGA and a government educational programme.
- Includes Indicators of Social development defined under Millennium Development Goals, Social Indicators issued by the OECD and list of Standards for Social Accounting/ Reporting.
- The Guide comes with a CD of the entire Guide to ensure ease of reference and reusability.

Study on Co-ordination of Internal Auditor with Functional Heads



(Pages: 51 + 10 Initial pages+ 2 Cover pages)

Price: ₹100/- *(including CD)*

In today's challenging times, the internal auditor's role is being viewed as a partner and trusted advisor for functional heads as well as for the Board of Directors and Audit Committee. The Internal Audit Standards Board of the Institute has brought out **"Study on Co-ordination of Internal Auditor with Functional Heads"** with a view to provide guidance on the way co-ordination and co-operation between internal auditor and functional heads can be achieved while respecting distinctive functions and professional requirements of both.

Significant features of the Study are:

- Overview of areas of co-ordination, essential qualities for effective co-ordination and importance of communication/co-ordination with functional heads.
- Discusses various basic tenets of internal audit which should not be compromised in the co-ordination process.
- Detailed guidance about co-ordination aspects in various types of internal audit like, operational audit, financial audit, compliance audit, information systems audit, investigative audit and management audit.
- Provides an insight into various types of hurdles an internal auditor faces in the co-ordination process and the methodology to overcome these constraints with case studies.
- The Study comes with a CD of the entire Guide to ensure ease of reference and reusability.

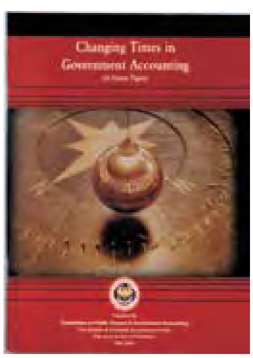
Ordering information:

The publication(s) can be obtained from the sales counter at the Regional Offices or at the Head Office of the Institute. Copies can also be obtained by post. To order by post, send a demand draft for the amount of price of the publication (add the charges indicated below for the desired mode of delivery) in favour of the "The Secretary, The Institute of Chartered Accountants of India, New Delhi", payable at New Delhi, to the Postal Sales Department, the Institute of Chartered Accountants of India, A-29, Sector-62, Noida - 201309 - (U.P.).

Postal Charges:

		Technical Guide on Social Audit	**Study on Co-ordination of Internal Auditor with Functional Heads**
By Courier:	Within Delhi:	₹20 /-	₹20 /-
	Rest of India:	₹25 /-	₹25 /-
By Registered Parcel:	Within India:	₹36 /-	₹36 /-

Status Paper on Changing Times in Government Accounting



The Committee on Public Finance & Government Accounting of ICAI has prepared a Status Paper on "Changing Times in Government Accounting with a view to highlight the importance of accounting reforms, the crucial need to change from cash to accrual system, single to double entry accounting, green accounting, role of CA's in government accounting reforms and other related issues.

This is a non-priced publication of the Institute. In case the members would like to have a copy of the Status Paper, they can write to the CPF&GA Secretariat at cpf_ga@icai.org. The Status Paper is also freely downloadable from the URL: http://www.icai.org/post.html?post_id=6768.

Chartered Accountancy Examinations, May 2011 – Announcement

24th January, 2011

The next Professional Competence Examination (PCE), Integrated Professional Competence Examination (IPCE) and Final Examinations of the Institute will be held from 2nd May, 2011 to 16th May, 2011. Notification and detailed announcement thereon have already been hosted on ICAI website www.icai.org.

Applications for admission to Professional Competence Examination (PCE), Integrated Professional Competence Examination (IPCE) and Final examination can be made either through the online mode at http://icaiexam.icai.org or through physical application forms, which are priced as follows:

PCE and IPCE examinations	₹100/- per form
Final examination	₹500/- per form

In order to encourage the student community to take to on-line applications, it has been decided to waive off the cost of application form (i.e., ₹100/- or ₹500/- as the case may be) in respect of candidates who fill in their forms online at http://icaiexam.icai.org and remit the examination fee online by using either VISA or Master credit/debit card.

Students may note the following:

Last date for submission of physical/on-line forms without late fee- 28.02.2011
Last date for submission of physical/on-line forms with late fee of ₹500/- 07.03.2011

Students are advised to take advantage of the facility of making on-line applications and save on the cost of the exam form.

(Dr T. Paramasivan)
Sr. Deputy Director (Exams)

Common Proficiency Test (Paper-Pencil Mode), June, 2011 - Notification

18th January, 2011

TO BE PUBLISHED IN PART III SECTION 4 OF THE GAZETTE OF INDIA

NOTIFICATION

No.13-CA (EXAM)/CPT/ June/2011: - In pursuance of Regulation 22 of the Chartered Accountants Regulations, 1988, the Council of the Institute of Chartered Accountants of India is pleased to notify that the **Common Proficiency Test (Paper-Pencil Mode)** will be held on **Sunday, 19th June, 2011** in two sessions as below, at the following centres provided that sufficient number of candidates offer themselves to appear from each centre.

[As per provisions of Regulation 25 D (3) of the Chartered Accountants Regulations, 1988 and the syllabus as published in the pages 291-293 of the Journal 'The Chartered Accountant' August 2006 issue and pages 12-13 of Chartered Accountants Students' Newsletter August 2006 issue.]

First Session **(i.e. Morning Session)**	**10.30 AM to 12.30 PM (IST)** Section - A Fundamentals of Accounting Section - B Mercantile Laws
Second Session **(i.e. Afternoon Session)**	**2.00 PM to 4.00 PM (IST)** Section - C General Economics Section - D Quantitative Aptitude

1	AGRA	46	GOA	91	PANIPAT
2	AHMEDABAD	47	GORAKHPUR	92	PANVEL
3	AHMEDNAGAR	48	GUNTUR	93	PATNA
4	AJMER	49	GURGAON	94	PATIALA
5	AKOLA	50	GUWAHATI	95	PIMPRI-CHINCHWAD
6	ALAPPUZHA	51	GWALIOR	96	PONDICHERRY
7	ALIGARH	52	HISAR	97	PUNE
8	ALLAHABAD	53	HUBLI	98	RAIPUR
9	ALWAR	54	HYDERABAD	99	RAJAMAHENDRAVARAM
10	AMBALA	55	INDORE	100	RAJKOT
11	AMRAVATI	56	JABALPUR	101	RANCHI
12	AMRITSAR	57	JAIPUR	102	RATLAM
13	ANAND	58	JALANDHAR	103	REWARI
14	ASANSOL	59	JALGAON	104	ROHTAK
15	AURANGABAD	60	JAMMU	105	ROURKELA
16	BANGALORE	61	JAMNAGAR	106	SAHARANPUR
17	BAREILLY	62	JAMSHEDPUR	107	SALEM
18	BATHINDA	63	JODHPUR	108	SAMBALPUR
19	BEAWAR	64	KANPUR	109	SANGLI
20	BELGAUM	65	KARNAL	110	SATARA
21	BELLARY	66	KOLLAM	111	SHIMLA
22	BERHAMPORE	67	KOLHAPUR	112	SIKAR
23	BHAGALPUR	68	KOLKATA	113	SILIGURI
24	BHARAUCH	69	KOTA	114	SOLAPUR
25	BHAVNAGAR	70	KOTTAYAM	115	SONEPAT
26	BHILWARA	71	KOZHIKODE	116	SRI GANGANAGAR
27	BHOPAL	72	KUMBAKONAM	117	SURAT
28	BHUBANESWAR	73	LATUR	118	THANE
29	BHUJ	74	LUCKNOW	119	THIRUVANANTHAPURAM
30	BIKANER	75	LUDHIANA	120	THRISSUR
31	BILASPUR	76	MADURAI	121	TINSUKIA
32	CHANDIGARH	77	MANGALORE	122	TIRUCHIRAPALLI
33	CHENNAI	78	MATHURA	123	TIRUPATI
34	COIMBATORE	79	MEERUT	124	TIRUPUR
35	CUTTACK	80	MORADABAD	125	TUTICORIN
36	DEHRADUN	81	MUMBAI	126	UDAIPUR
37	DELHI/NEW DELHI	82	MUZAFFARNAGAR	127	UDUPI
38	DHANBAD	83	MYSORE	128	UJJAIN
39	DUNDLOD	84	NAGPUR	129	VADODARA
40	DURG	85	NANDED	130	VAPI
41	ERNAKULAM	86	NASHIK	131	VARANASI
42	ERODE	87	NELLORE	132	VELLORE
43	FARIDABAD	88	NOIDA	133	VIJAYAWADA
44	GANDHIDHAM	89	PALGHAT	134	VISAKHAPATNAM
45	GHAZIABAD	90	PALI MARWAR	135	YAMUNA NAGAR

Overseas Centres :- (1) ABU DHABI (2) DUBAI (3) BAHRAIN (4) DOHA (5) KATHMANDU

The Council reserves the right to withdraw any centre at any stage without assigning any reason.

Applications for admission to Common Proficiency Test is required to be made in the relevant prescribed form as contained in the Information Brochure, which may be obtained from the **Sr. Deputy Director (Examinations)**, The Institute of Chartered Accountants of India, ICAI Bhawan, Indraprastha Marg, New Delhi – 110 002 on payment of ₹600/- (₹500/- towards examination fee and ₹100/- towards cost of application form and Information brochure) per application form. The fee for candidates opting for Abu Dhabi, Dubai, Doha and Bahrain centres will be US $160 (US $ 150 towards examination fee and US $ 10 towards cost of application form and information brochure) or its equivalent Indian Currency. The fee for the candidates opting for Kathmandu centre are required to remit INR.950/- (INR 850/- towards examination fee and INR 100/- towards the cost of application form and information brochure) or its equivalent foreign Currency. Since the cost of Information brochure containing Common Proficiency Test application form includes the examination fee, no separate fee is required to be remitted at the time of submitting the filled in application form. The Information brochure containing Common Proficiency Test application form will also be available in the Regional and Branch Offices of the Institute and can be obtained there from on cash payment on or from **4th April, 2011.**

Common Proficiency Test application forms duly filled in may be sent so as to reach the **Sr. Deputy Director (Examinations)** at New Delhi not later than **25th April, 2011**. Applications received after **25th April, 2011** shall not be entertained under any circumstances. Applications duly filled in will be received by hand delivery at the offices of Institute at New Delhi and at the Decentralised Offices of the Institute at Mumbai, Chennai, Kolkata, Kanpur, Ahmedabad, Bangalore, Hyderabad, Jaipur and Pune upto **25th April, 2011**. Candidates residing in these cities are advised to take advantage of this facility. **It may be noted that there is no provision for acceptance of application forms after 25th April, 2011 with late fee.**

Alternatively the candidate may fill up the examination application form online at http://icaiexam.icai.org from **4thApril, 2011 (10:00 hrs)** to **25thApril, 2011 (17:30hrs)** and remit the fee online by using either VISA or Master Credit / Debit Card.

Common Proficiency Test (CPT) is open only to those students who are already registered with the Institute of Chartered Accountants of India for the said course on or before **1st April, 2011** and fulfill the requisite eligibility conditions.

QUESTION PAPER BOOKLET LANGUAGE:

Common Proficiency Test will be an objective type multiple choice questions based examination. Candidates will be allowed to opt for Hindi medium Question Paper Booklet for answering the questions. Detailed information will be found given in the Information brochure.

(Dr. T. PARAMASIVAN)

SR. DEPUTY DIRECTOR (EXAMS.)

Chartered Accountancy Examinations, May 2011 - Notification

12th January, 2011

TO BE PUBLISHED IN PART III SECTION 4 OF THE GAZETTE OF INDIA

NOTIFICATION

No. 13-CA (EXAM)/M/2011: - In pursuance of Regulation 22 of the Chartered Accountants Regulations, 1988, the Council of the Institute of Chartered Accountants of India is pleased to notify that the Professional Competence Course (PCC), Integrated Professional Competence Course (IPCC) and Final examinations will be held on the dates given below at the following centres provided that sufficient number of candidates offer themselves to appear from each centre.

Similarly Post Qualification Course Insurance and Risk Management (IRM) examination will also be held on the dates given below at the following centres (centres in India only) in terms of provisions as contained in Schedule "G" of the Chartered Accountants Regulations, 1988, provided that sufficient number of candidates offer themselves to appear from each centre.

PROFESSIONAL COMPETENCE COURSE EXAMINATION (PCC)

[As per syllabus contained in the scheme notified by the Council under Regulation 28 C (3) of the Chartered Accountants Regulations, 1988]

Group-I: 3rd , 5th & 13th May-2011
Group-II: 7th , 9th & 15th May-2011

(Morning Session: 9.00 AM to 12.00 Noon) (IST)

INTEGRATED PROFESSIONAL COMPETENCE COURSE EXAMINATION (IPCC)

[As per syllabus contained in the scheme notified by the Council under Regulation 28 E (3) of the Chartered Accountants Regulations, 1988]

Group-I: 3rd, 5th, 7th & 9th May-2011
Group-II: 11th, 13th & 15th May-2011

(Morning Session: 9.00 AM to 12.00 Noon) (IST)

FINAL EXAMINATION:

[As per syllabus contained in the scheme notified by the Council under Regulation 31 (ii) of the Chartered Accountants Regulations, 1988.]

Group -I: 2nd,4th,6th & 8th May-2011
Group -II: 10th,12th,14th & 16th May-2011

(Morning Session: 9.00 AM to 12.00 Noon) (IST)

INSURANCE AND RISK MANAGEMENT (IRM) COURSE EXAMINATION:

[As per provisions contained in "Schedule G" of Chartered Accountants Regulations, 1988]

Modules I to IV	**10th,12th,14th & 16th May-2011**

(Morning Session: 9.00 AM to 12.00 Noon) (IST)

EXAMINATION CENTRES: (FOR ALL EXAMINATIONS)

CITIES IN INDIA:

1	AGRA	46	GUNTUR	91	PATNA
2	AHMEDABAD	47	GURGAON	92	PATIALA
3	AHMEDNAGAR	48	GUWAHATI	93	PIMPRI-CHINCHWAD
4	AJMER	49	GWALIOR	94	PONDICHERRY
5	AKOLA	50	HISAR	95	PUNE
6	ALAPPUZHA	51	HUBLI	96	RAIPUR
7	ALIGARH	52	HYDERABAD	97	RAJAMAHENDRAVARAM
8	ALLAHABAD	53	INDORE	98	RAJKOT
9	ALWAR	54	JABALPUR	99	RANCHI
10	AMBALA	55	JAIPUR	100	RATLAM
11	AMRAVATI	56	JALANDHAR	101	REWARI
12	AMRITSAR	57	JALGAON	102	ROHTAK
13	ANAND	58	JAMMU	103	ROURKELA
14	ASANSOL	59	JAMNAGAR	104	SAHARANPUR
15	AURANGABAD	60	JAMSHEDPUR	105	SALEM
16	BANGALORE	61	JODHPUR	106	SAMBALPUR
17	BAREILLY	62	KANPUR	107	SANGLI
18	BATHINDA	63	KARNAL	108	SATARA
19	BEAWAR	64	KOLLAM	109	SHIMLA
20	BELGAUM	65	KOLHAPUR	110	SIKAR
21	BELLARY	66	KOLKATA	111	SILIGURI
22	BERHAMPORE	67	KOTA	112	SIRSA
23	BHARAUCH	68	KOTTAYAM	113	SOLAPUR
24	BHAVNAGAR	69	KOZHIKODE	114	SONEPAT
25	BHILWARA	70	KUMBAKONAM	115	SRI GANGANAGAR
26	BHOPAL	71	LATUR	116	SURAT
27	BHUBANESWAR	72	LUCKNOW	117	THANE
28	BHUJ	73	LUDHIANA	118	THIRUVANANTHAPURAM
29	BIKANER	74	MADURAI	119	THRISSUR

30	BILASPUR	75	MANGALORE	120	TINSUKIA
31	CHANDIGARH	76	MATHURA	121	TIRUCHIRAPALLI
32	CHENNAI	77	MEERUT	122	TIRUPATI
33	COIMBATORE	78	MORADABAD	123	TIRUPUR
34	CUTTACK	79	MUMBAI	124	TUTICORIN
35	DEHRADUN	80	MUZAFFARNAGAR	125	UDAIPUR
36	DELHI/NEW DELHI	81	MYSORE	126	UDUPI
37	DHANBAD	82	NAGPUR	127	UJJAIN
38	DURG	83	NANDED	128	VADODARA
39	ERNAKULAM	84	NASHIK	129	VAPI
40	ERODE	85	NELLORE	130	VARANASI
41	FARIDABAD	86	NOIDA	131	VELLORE
42	GANDHIDHAM	87	PALGHAT	132	VIJAYAWADA
43	GHAZIABAD	88	PALI MARWAR	133	VISAKHAPATNAM
44	GOA	89	PANIPAT	134	YAMUNA NAGAR
45	GORAKHPUR	90	PANVEL		

OVERSEAS CENTRES: (FOR PROFESSIONAL COMPETENCE COURSE (PCC), INTEGRATED PROFESSIONAL COMPETENCE COURSE (IPCC) AND FINAL EXAMINATIONS ONLY)

1) ABU DHABI	**2) DUBAI**	**3) KATHMANDU**

Payment of fees for the examinations should be made by Demand Draft only. The Demand Drafts may be of any Scheduled Bank and should be drawn in favour of **The Secretary, The Institute of Chartered Accountants of India, payable at New Delhi only.**

The Council reserves the right to withdraw any centre at any stage without assigning any reason.

Applications for admission to these examinations are required to be made either online at http://icaiexam.icai.org **free of cost (i.e, ₹100/- for PCC & IPCC candidates and ₹500/- for Final candidates for application form shall not be charged if applications are filled in online, in case of Final Examination online facility is available only upto 28th February, 2011)** or in the relevant prescribed form, copies of which may be obtained from the **Sr. Deputy Director (Examinations), The Institute of Chartered Accountants of India,** ICAI BHAWAN, Indraprastha Marg, New Delhi – 110 002 on payment of ₹100/- per application form in respect of Professional Competence Course & Integrated Professional Competence Course candidates and **₹500/-** per application form in respect of Final Examination candidates. The cost of Examination application forms for Insurance and Risk Management (IRM) examination is ₹100/- per application form. The forms shall also be made available in the Regional and Branch Offices of the Institute and can be obtained therefrom on cash payment on or from **7th February, 2011**.

Applications together with the prescribed fee by Demand Draft of any Scheduled Bank may be sent so as to reach the Sr. Deputy Director (Examinations) at New Delhi not later than **28th February, 2011**. However, applications will also be received direct by Delhi Office after **28th February, 2011** and upto **7th March, 2011** with late fee of **₹500/-**. Applications received after **7th March, 2011** shall not be entertained under any circumstances. Applications for the students' examinations only duly filled in will also be received by hand delivery at the office of Institute at New Delhi and at the Decentralised Offices of the Institute at Mumbai, Chennai, Kolkata, Kanpur, Delhi, Ahmedabad, Bangalore, Hyderabad, Jaipur and Pune upto **7th March, 2011**. Candidates residing in these cities are advised to take advantage of this facility. However, application forms duly completed for the Post Qualification Course examination Insurance and Risk Management (IRM) examinations will be received **only** at the New Delhi office of the Institute.

The candidates who fill up the examination application form online at http://icaiexam.icai.org **from 7th February, 2011 to 28th February, 2011 and remit the fee online by using either VISA or MASTER Credit/ Debit Card shall not be charged ₹100/- in case of PCC & IPCC Examinations and ₹500/- in case of Final examination (i.e, cost of application form fee) in order to popularise filling-in of application form online. The candidates of PCC and IPCC can continue to fill in application forms online from 1st March, 2011 to 7th March, 2011 whereas the candidates of Final Examinations are necessarily required to fill in physical application**

forms from 1st March, 2011 to 7th March, 2011 in case they fail to fill in and submit their online application form by 28th February, 2011.

The fees payable for the various examinations are as under: -

PROFESSIONAL COMPETENCE COURSE and INTEGRATED PROFESSIONAL COMPETENCE COURSE EXAMINATIONS	
For Both the Groups/Unit - 9	₹1600/-
For one of the Groups/Unit 1 to 8	₹1000/-
FINAL EXAMINATION	
For Both the Groups	₹2250/-
For one of the Groups	₹1250/-
INSURANCE & RISK MANAGEMENT (IRM) EXAMINATION	₹1000/-

Candidates of Professional Competence Course Examination (PCC)/Integrated Professional Competence Course Examination(IPCC) and Final examination opting for Dubai/Abu Dhabi Centre are required to remit, US $ 350 and US $ 400 respectively or its equivalent Indian Currency irrespective of whether the candidates appear in a group or in both the groups or in a unit.

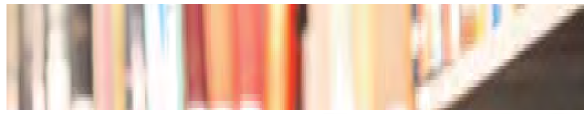
Candidates of Professional Competence Course Examination (PCC) /Integrated Professional Competence Course Examination (IPCC) and Final Examinations opting for Kathmandu centre are required to remit Indian ₹2250/- and Indian ₹3000/- respectively or its equivalent relevant foreign currency irrespective of whether the candidates appear in a group or in both the groups or in a unit.

OPTION TO ANSWER PAPERS IN HINDI:

Candidates of Professional Competence Course Examination (PCC)/Integrated Professional Competence Course Examination (IPCC) and Final Examinations will be allowed to opt for Hindi medium for answering papers. Detailed information will be found printed in the Information sheets attached to the relevant application form. However the medium of Examinations will be only English in respect of Insurance and Risk Management (IRM) Examination.

Dr. T. Paramasivan)

Sr. Deputy Director (Exams)



"Transfer Pricing" eLearning Course By Committee on IT

CPE Credit: Unstructured 6 (Six)

Course Fee: ₹500/-

Transfer Pricing eLearning Course

It is indeed a matter of proud privilege and honor for Chartered Accountants to have been given the onerous responsibility of reporting on International Transactions. This eLearning course aims to introduce the pertinent details in a lucid and easily understandable manner such that Chartered Accountants are equipped to better discharge this responsibility to the satisfaction of the government. This course inter alia covers the following aspects:

- Introduction/ Purpose/ Basic components/ Section 92
- Concept of Transfer Pricing (Issues/ Provisions)
- Transfer Pricing Regulations (Pre/ Post)/ Need
- Basic Principles of Taxation/
- Shortcomings of existing provisions of IT Act, 1961
- Associated Enterprises/Deemed Associated Enterprises

Course and Lesson Navigation

All the information – all the time. ICAI eLearning courses are transparent. They give you great details of your eLearning usage:

- Time taken in last attempt
- Fully expandable or contactable modules
- Show all lessons, or completed only or incomplete lessons
- Number of times each lesson being attempted
- Account Expiry date
- Search the course for words or terms
- Total time spent in course
- Change password of user details
- Blogs
- Complete audio control
- Graphs
- Animations
- Totally web-based, no download, no plug-in
- 24*7 access through internet with unlimited attempts
- Any time anywhere access

How to Register

You can register for the course Online by paying the course fee through the ICAI Online Payment at the following link:

http://www.icai.org/ccm.html

and your Redeem Code to register for the eLearning courses would be dispatched by e-mail on the next working day. Alternatively, you can pay the course fee by DD/ Pay Order/ At-Par-Cheque drawn in favour of "The Secretary, ICAI" payable at Delhi and send it with a covering letter giving your pertinent details (name, address, phone no., mobile no., e-mail id) to the address given below. You can also make use of eLearning Courses Registration Form available at the following link:

http://cit.icai.org/Online_Transfer%20Pricing.html

Committee on Information Technology
The Institute of Chartered Accountants of India
ICAI Bhawan, Plot No. 52-54, Vishwas Nagar, Shahadara
Delhi-100032, India
Phone: 011-30210619/621, Fax: 011-30210681,
E-mail: elearn@icai.in, Web: http://elearn.icai.org

ICAI Comments on SEBI Report on Review of Ownership and Governance of Market Infrastructure Institutions (MII)

As you are aware, the Securities and Exchange Board of India (SEBI) constituted a Committee to examine issues arising from the ownership and governance of Market Infrastructure Institutions (MIIs) under the Chairmanship of Dr. Bimal Jalan (Former Governor, Reserve Bank of India). The Committee has submitted its report and the same was released by the SEBI for Public Comments in November 2010.

The **Committee on Financial Markets and Investors' Protection of ICAI** has submitted detailed recommendations and suggestions to the SEBI on the report. The detailed comments, as submitted to the SEBI, are given below with this announcement. You are requested to please provide your comments on the recommendations and suggestion made by the ICAI for consideration of the Committee. The comments can be submitted by email at cfmip@icai.org or by post to the 'Secretary, CFM&IP, ICAI Bhawan, A-29, Sector 62, Noida – 201309'.

Chairman,
Committee on Financial Markets and
Investors' Protection

ICAI Suggestions/Recommendations/Comments on the SEBI's Committee Report on Review of Ownership and Governance of Market Infrastructure Institutions (MII)

S.no	Head	Recommendation of the Committee (s)	Comments/Suggestions/Recommendations with Rationale
		Chapter II – Ownership Norms	
1)	**Ownership and Control**	<u>**As per Para 2.2**</u> **For Stock Exchanges:** • Individual ownership – 5% • Institution fulfilling stringent eligibility criteria- 15% • Person resident outside India- 5% • Limit on cumulative holding by trading members	We are in agreement with the Committee recommendations of dispersed ownership and Individual ownership ceiling limit of 5%. However, we propose the following ownership structure for the Stock Exchange: • Trading members to the extent of 20% • Other Market Intermediaries up to 20% • 40% with PSU Banks/other PSUs/Central Government/ State Government • Balance 20% with FIs/Banks/investors • No foreign holding A widespread ownership structure has been proposed so that exchanges, being the regulatory bodies and public institutions, may be benefited by the existence of diversified participants. Stock Exchanges being a regulatory body, no foreign holding was recommended.
		Optimal Number of Stock Exchanges in India	The Committee has rightly covered almost all issues on various aspects of Stock Exchanges. However in our view, the number of Stock Exchanges should not be unlimited or so to say there should not be free entry irrespective of meeting eligibility norms like: license for a Bank. In our view the size of GDP and present volumes in the markets do not justify existence of many players and even developed countries do not have many SEs. It may be noted that too many SEs may lead to unhealthy competition & manipulative practices and even due to lack of depth and volumes, if any Exchange fails it will be a great confidence shaking for the entire economy. In our view, 4 to 6 National Exchanges are enough with platform in each for small companies also. Besides Equity all debt need to be listed on same platform with delivery and payment settlement all linked. Since stock Exchanges have a very important role in a regulation of unhealthy practices, the decision has to be regulator driven.

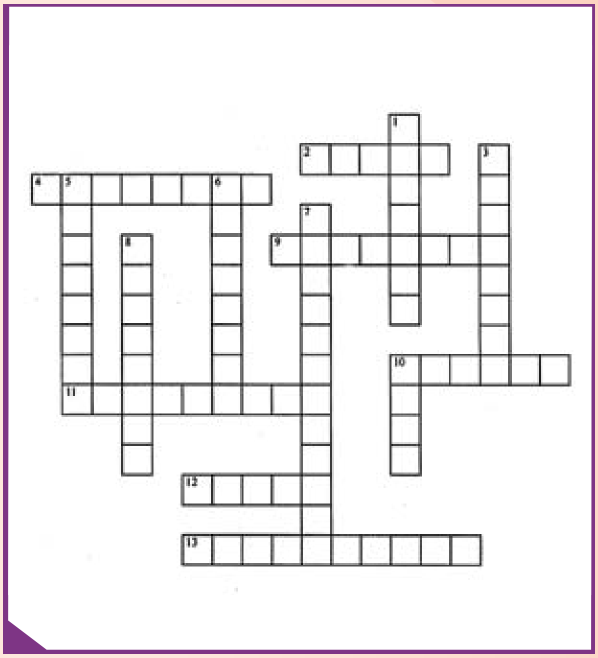
S.no	Head	Recommendation of the Committee (s)	Comments/Suggestions/Recommendations with Rationale
		• Anchor Investor (can only be banks and public financial institutions) - can hold up to 24%. • Anchor Investor is required to bring down their holding to 15 % or less in 10 years from time they recognised as Anchor Investor.	Concept of Anchor Investor who can take a lead role in setting up a Stock Exchange and will play an important role in this context. Accordingly, the Anchor Investor may be allowed provided this concept does not result in any kind of dilution of above suggested diversified ownership structure norms of the Stock Exchanges. We also suggest that Anchor Investor should be subject to no distribution of profits or capital gain similar to Section 25 (not for profit companies)of the Companies Act, 1956. We suggest that Anchor Investor should bring down their holding to 10 % instead of 15 % as specified by the Committee.
		<u>**As per Para 2.3**</u> **For Clearing Corporations :** • At least 51% of the paid-up equity capital of the clearing corporation should be held by one or more Recognised Stock Exchanges.	*The Committee favours a situation where Stock Exchanges have a significant relationship with the Clearing Corporation will act its anchor investor (Page 46 of the report).* We are in agreement with the proposal as Committee itself noted that primary objective of a Clearing Corporation is to ensure orderly settlement of trades and security and stability of the settlement system. However, we suggest at least 26% of the paid–up capital should be held by stock exchanges instead of 51 % as suggested by the Committee. Further, one National Exchange can be a lead investor with 26% holding in clearing corporation along with 25% holding with 3 or 4 PSU Banks.
		<u>**As per Para 2.4**</u> **For Depositories:** • The holding of stock exchanges in depositories may be restricted to a maximum of 24%.	We are in agreement with the Committee recommendation of maximum cap of 24% in depositories. However it is proposed that another 27% may be held by PSU banks.
		<u>**As per Para 2.5**</u> **For Foreign Participations:** An FII should be allowed to acquire the shares through off market transactions including through initial allotment, as allowed for other shareholder, subject to the limits specified by the Government from time to time.	In our view , no Foreign holding should be permitted in the Stock Exchanges, as they are regulatory bodies (public institutions) and not organisations set up for commercial purposes or gains.
		Chapter III – Governance Norms	
2)	**Governance issues of MII's – Composition of Board**	<u>**As per Para 3.1**</u> **For Stock Brokers:** • No trading/clearing member shall be allowed on the board of any of the stock exchange • Number of public interest directors on the board of a stock exchange shall at least be equal to the number of shareholder directors without trading/ clearing interest. • Appointment of Chairperson with the approval of SEBI.	The committee itself noted that the *Trading members on the Board of a stock exchange are privy to confidential information and this may give rise to the conflict of interest when the entity regulated by the stock exchange is also on the Board of the Stock exchange* (page 52). However, we are of the view that Trading members should be given representation on the Board to utilise their rich practical experience. In our opinion, the structure of the Board can be as follows: • 20% Government nominee/SEBI nominee out of Government officials • 20% members to represent to CII/FICCI/ASSOCHAM • 20% to represent Trading members • 20% Market intermediaries or players say MF/MB/ Registrars/Primary dealers/PSU banks • 20% public participation We are also in agreement to the Committee's suggestions about the public interest directors and shareholders directors but the Government should retain the right to regulate financial affairs of stock exchanges through SEBI/MOF in exceptional cases as *Management by Exception rule*. We agree that the Chairperson shall be appointed with the approval of the SEBI.
		• No remuneration or commission to be paid to Board members.	Yes, since these are an honorary posts, therefore no remuneration or commission to be paid except regulated sitting fee.
		• Constitution of Advisory Committee comprising of Trading members. The Advisory Committee shall meet a minimum of 4 times a year.	We agree to the Advisory Committee constitution but it should also have management powers subject to policy level supervision by Board.

S.no	Head	Recommendation of the Committee (s)	Comments/Suggestions/Recommendations with Rationale
		<u>As per Para 3.2</u> **For Clearing Corporations :** • The number of public interest directors on the board of a Stock Exchange shall at least be equal to the number of shareholder directors without trading/ clearing interest.	The following structure of the Board is proposed for the Clearing Corporations: • 25% members of lead SE • 25% members of PSU bank(s) • 20% clearing members • 30% members of public/investors Chairman of the Board can be appointed with casting vote by lead SE.
		• Constitution of Advisory Committee comprising of clearing members. The Advisory Committee shall meet a minimum of 4 times a year.	We agree to the Advisory Committee constitution but it should also have management powers subject to policy level supervision by Board.
		<u>As per Para 3.3</u> **For Depositories:** The board composition in depositories should be the same as prescribed for listed companies under Clause 49 of the listing agreement.	In case of depositories, we suggest that the Board composition must comprise of 20% Government nominees and 20% from PSU banks.
3)	**Disclosure by Board Members**	<u>As per Para 3.4</u> All transactions in securities of the board members of the MII and their family have to be disclosed to the Board of the MII.	We suggest that all transactions done by the board members and their family should be tracked by system *automatically* based on *unique client code* that can be allotted to them.
4)	**Employee(s) on the Board of the MII**	<u>As per Para 3.5</u> The MD/CEO of the MII shall be ex-officio member on the board of the MII. MD/CEO is not counted in the category of public interest directors or shareholder directors. If MII wishes to appoint any other official, than the approval of Shareholder and SEBI is required.	We are agreeable to the Committee recommendations.
Chapter IV – Measures for Conflicts Resolution			
5)	**Mechanism for ensuring Autonomy of Regulatory Departments**	<u>As per Para 4.1</u> • Chinese walls in terms of work area, infrastructure, personnel etc, shall be maintained between the regulatory and commercial departments. • The MII should have an internal manual covering the management of conflicts for both commercial and regulatory functions of the MII, supported by comprehensive training and awareness.	We see the Stock Exchanges as Regulatory bodies and as such suggest that the regulatory function is a must with SEs without any commercial interest. We strongly oppose any commercial interest in Stock Exchanges.
6)	**Appointment of MD/CEO**	<u>As per Para 4.2</u> • Appointment of MD/CEO of a Stock Exchange is subject to the approval of SEBI • Same can also be applicable to the MD/CEO of clearing corporations and depositories.	We are agreeing to the Committee recommendations that the MD/CEO of a Stock Exchange, Clearing Corporations and Depositories should be appointed with the approval of SEBI. We suggest that the maximum term of three years and outer side two terms of 3 years each may be given.
		• SEBI shall ensure that the CEO is appointed for a reasonable tenure, say between 3-5 years.	Yes, we are agree to it.
7)	**Compensation of Key Management Personnel**	<u>As per Para 4.3</u> The remuneration including the annual increment indexed for inflation, should be a fixed sum without any variable component linked to the commercial performance of the MII. Further, the compensation should not include any form of equity/equity linked or stock options in the MII.	Some of the stock exchanges are paying to their management personnel very heavily. We suggest that the pay scales should be as per 6th pay commission and similar to Chairman and ED of Public sector banks. This require stricter regulation in public interest.
8)	**Appointment of Compliance Officers**	<u>As per Para 4.4</u> Appointment shall be mandatory for Stock Exchanges and Clearing Corporations.	We are agreeing to the Committee recommendations but we suggest that appointment of Compliance Officers will be with SEBI's approval and Government nominee Board members must be there in selection process. The Compliance Officer should be professionally qualified.

S.no	Head	Recommendation of the Committee (s)	Comments/Suggestions/Recommendations with Rationale
		Chapter V - Other Issues	
9)	**Listing**	<u>As per Para 5.1</u> **Committee is not in favor of permitting listing of MIIs.** • Disclosures and Corporate Governance requirements of listing agreement shall be made applicable to MIIs. • An MII should not become a vehicle for attracting speculative investments. Further, MIIs being public institutions, any downward movement in its share prices may lead to a loss of credibility and this may be detrimental to the market as a whole.	We are also of the view similar to the recommendation of the Committee that listing of MIIs, especially for Stock Exchange should not be permitted. In our view, the Stock Exchanges are regulatory bodies and have been enjoying monopoly position due to license given by the government. We are of the view that the bodies performing regulatory function should not be listed.
10)	**Networth Requirements**	<u>As per Para 5.2.1</u> **For Stock Exchanges:** Should have Net worth of ₹100 crores at all times. <u>As per Para 5.2.2</u> **For Depositories:** Should have Net worth of ₹100 crores at all times. All other investments in related, unrelated/other business shall be excluded while computing the net worth. <u>As per Para 5.2.3</u> **For Clearing Corporations :** The Net worth requirement may be fixed at 300 crores in the form of liquid assets	Networth requirements proposed for the Stock Exchanges, Depositories and Clearing Corporations appears to be on the higher side. In our view, more focus should be made on the professional qualification, practical experience and past track records of the promoters.
11)	**MIIs' to generate reasonable profits**	<u>As per Para 5.2.3</u> A cap may be fixed on the maximum return that can be earned by MII on its net worth and can be distributed to the shareholders. Any return above the maximum attributable amount shall be transferred to **IPF** or **SGF.**	We are of the opinion that restrictions of Section 25 (Not for profit companies) of the Companies Act, 1956 shall apply to the SEs and Clearing Corporations and as such they should not be allowed to distribute profits. Any effort to privatise them or to convert them as profit making entity could be dangerous. We can allow Depositories to distribute a reasonable profit. Depository charges may be regulated.
12)	**Related Business of MIIs**	<u>As per Para 5.2.4</u> Activities not incidental or those unrelated to the core activities of the MII must be segregated to a separate legal entity.	No subsidiaries should be allowed except for the core activities needed to support the business of the MIIs e.g. IT like NSE IT. In other words, the MIIs should be permitted to perform activities incidental and inherent to their core activities only.
13)	**Replacing of SCR (MIMPS) Regulations**	<u>As per Para 5.5</u> • A new regulation may replace the MIMPS Regulations for regulating 'Ownership and Governance Regulations for Stock Exchanges and Clearing Corporations' and consequent amendments (as required) may also be carried out. The concept of 'persons acting in concert' also needs to be separately defined in the new Regulations for the purpose of ownership norms.	We are in agreement to the Committee recommendation. 'Person acting in concert' to be defined very carefully to be exhaustive. A Guidance can be taken from Takeover code and definition of associated enterprise. All direct and indirect relations to be covered including deep business relation with each other.
14)	**Exit Norms**	<u>As per Para 5.6</u> • Exit norms may also be prescribed for Clearing Corporations and Depositories.	We are in agreement to the Committee recommendation.
15)	**Power of SEBI in relation to MII's**	<u>As per Para 5.7</u> • SEBI shall be given more powers for accepting/ rejecting applications for recognition of SEs. • SEBI shall have discretion to limit the number of MIIs operating in the market.	We are agreeable to the Committee recommendations and suggest that both the powers should be exercised jointly by MOF and SEBI.

■

CROSS WORD 056



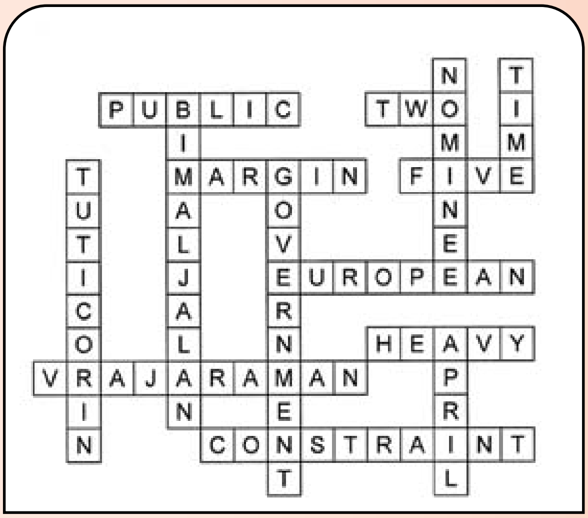
ACROSS

2. Rate of interest at which short-term funds are exchanged between banks in London.
4. ICAI International Conference held in January, 2011 at Vigyan Bhawan highlighted the Role of Accountancy Profession in Sustained __________ Growth. (8)
9. The time value of money means that a five-year promissory note without a stated interest rate will have an _________ interest rate. (8)
10. SEBI has permitted modifications to _______ code post trade execution only in case of genuine error or wrong data entry made by the trading members. (6)
11. SEBI has mandated all Foreign Venture Capital Investors to furnish name, address, contact no. and email address of all their ________. (9)
12. Recently 42nd Regional Conference of SIRC inaugurated by Finance Minster of India was held at ________. (5)
13. In reference with textile sector, TUFS stands for ___________ Upgradation Fund Scheme. (10)

DOWN

1. SEBI has permitted stock exchanges to introduce derivatives contracts on _______ stock indices in the equity derivative segment. (7)
3. Exemption of excise duty on packaged or canned ________ has been withdrawn. (8)
5. _______interest means that interest is earned on both the principal and on the accumulated interest. (7)
6. When any amount receivable in future is discounted to its present value, the amount that is removed is referred to as ____________. (8)
7. An _____________ schedule shows how a balance is systematically reduced and the correlation of the balance with each period's interest. (12)
8. Service tax exemption has been extended for the management, maintenance or repair of bridges, tunnels, dams, ________, railways and transport terminals as well. (8)
10. Concerned over rising incidents of cyber frauds, the RBI will soon ask banks to shift to _______ based ATM cards from the existing magnet strips ones and upgrade the currency vending machines. (4)

Note:
Members can claim one hour – CPE Credit – Unstructured Learning for attempting this crossword by filling the details in the self-declaration form to be submitted to your regional office annually to avail CPE hours credit for Unstructured learning activities under the activity 'Providing solutions to questionnaires/puzzles available on Web/Professional Journals'. There is no need to individually send this crossword in hard copy or email.



SOLUTION Crossword 055

1 A man joined a big Multi National Company as a trainee. On his first day, he dialed the kitchen and ordered: "Get me a cup of coffee, quickly!"
The voice from the other side responded: "You fool; you've dialed the wrong extension! Do you know who you're talking to?
"No" replied the trainee.
"It's the Managing Director of the company!"
The trainee shouted back: "And do you know to whom you are talking to, you fool?"
"No!" replied the Managing Director angrily.

"Thank God!" replied the trainee and kept the phone down....