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SET UP BY AN ACT OF PARLIAMENT

THE CHARTERED ACCOUNTANT JOURNAL

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

EXCELLENCE IN FINANCIAL REPORTING - ROLE OF ACCOUNTANCY PROFESSION IN INDIA

VOLUME 59 | No. 1 | JULY 2010

THE CHARTERED ACCOUNTANT

Rs. 100

Excellence in Financial Reporting - Role of Accountancy Profession in India

Financial reporting quality plays a very significant role in the economic growth of a country, as it assists in conducting its economic and financial affairs in prudent and transparent manner. For taking various economic decisions, there is a need for accurate, relevant and consistent information. India, an emerging economy, has witnessed unprecedented levels of economic expansion. Indian accountancy profession has also discharged its responsibilities towards the world of business and the country in the most efficient manner.

The Institute of Chartered Accountants of India (ICAI), being the premier accounting body in the country, has always taken proactive measures to promote a sound financial reporting system in the country. It would be pertinent to note that a significant step taken by the Institute in this regard is its decision to converge with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), which have assumed the status of Globally Accepted Accounting Standards. This initiative of the Institute has been supported by the Ministry of Corporate Affairs (MCA) also. For implementation of IFRS-converged standards in phase-wise manner beginning from accounting periods commencing on or after 1st April 2011, a roadmap has been laid down by the MCA. The Institute is making all-out efforts to achieve the goal of convergence with IFRS, such as, formulation of IFRS-converged Accounting Standards, which is at advanced stage, as the Exposure Drafts of all the Accounting Standards have been issued. Legal and regulatory issues are being identified and taken up with the relevant regulators to make Indian laws and regulations consistent with the IFRS requirements. Whole-hearted efforts are being made to create requisite capacity building to implement IFRS converged standards in the same spirit in which they are being formulated. For this purpose, IFRS Certificate Course and IFRS e-learning course have been started. Workshops, seminars on IFRSs are being organised all over the country and an all India chain workshops on IFRS-converged standards has been started in collaboration with the MCA.

Implementation of IFRS-converged standards would help in bringing excellence in financial reporting in the country, as these standards would generally be based on the premise that the financial statements should be transparent and should faithfully represent the actual financial position and performance of the entity. Accordingly, financial statements prepared on the basis of such standards would be comparable, globally understandable and transparent, which would help the investors to take more informed decisions. This would cover new areas of accounting also for which no accounting principles have been prescribed so far, such as, agriculture.

While the decision is to converge with IFRS and not to adopt the same signifies that efforts are being made to formulate Accounting Standards which, as far as possible, are in line with the corresponding IAS/IFRS, but keeping in view the Indian conditions and circumstances, some departures may have to be made where it is felt that these are absolutely essential. At the same time, Indian concerns would be raised before the IASB so that these are properly addressed at international level also. It is felt that certain issues are bound to arise in using IFRS–converged accounting standards, e.g. fair valuation approach. Efforts are being made to address such issues so that risks associated with implementation of these Standards are minimised. Regulators also have a significant role to play in effectively addressing such issues involved in implementation of these standards, e.g., they may consider imposing restrictions to ensure that unrealised gains are not distributed as dividends. For providing guidance for proper implementation of these standards, Frequently Asked Questions (FAQs), implementation guidance, etc. will also be issued by the Institute.

While India is moving towards convergence at present, but in future the Indian accountancy profession is expected to play a significant role not only in Indian financial reporting system but also in international financial reporting. This process has already begun, e.g., to play an influential role in formulation of IFRSs before their finalization, incisive comments are submitted to the IASB on their consultative documents. In future, India would make a significant contribution to international accounting on the basis of its rich experience, such as, its survival in the global financial crisis because of its prudence based accounting principles, and would emerge as a global accounting leader.

Editorial Board
ICAI- Partner in Nation Building

Contents

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THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

Contents

Dear All,

A birth is a cause for celebration. So is *July 1*, when all of us celebrate the spirit of fearlessness, integrity and ever-vigilant attitude of the CA profession.

Birth of an institution is a dignified event that moves us above the temporary concerns of our day-to-day lives. It is a symbol of human aspirations for the generations to come. We, generally, anticipate its significance, but disinterestedly, without realizing that there are always efforts and resolutions of multitude of differences behind the birth of an institution. Here, we must remember that gold has to get through the fire to become *kundan* losing all its impurities. Differences, therefore, need to be celebrated. And from this very mix of differences, appears a being that gives us reasons to rejoice and celebrate. It is said, the more we celebrate something, the more there will be of that thing to celebrate.

A celebrated author Og Mandino says: *Never again clutter your days or nights with so many menial and unimportant things that you have no time to accept a real challenge when it comes along…A day merely survived is no cause for celebration*. What we have with us at present is a long-long tradition of knowledge systems with a comparatively smaller today, which is the space available to us where we can deliver our decision, creation and intention. This long-long tradition includes volumes of accomplishments by the forefathers of our profession. The tradition we have behind us has to be our guiding force and our vision. Shri G. P. Kapadia writes: *No profession can aspire to progress unless it has a vision and (it) sets service to the community as its objective*. In the last 61 years of the existence, the tangent of growth the profession has drawn will, for sure, widen the frontiers of our scope and opportunities. We have an obligation towards our society that emanates from the respect we are given for the roles we play and the measures we take in the interests of the nation.

On the eve of the auspicious *CA Day*, let us vouch for our professional integrity that we should never indulge in work without regard to the ultimate truth.

Towards Social and State Obligations

IFRS Training for Government and PSUs Officials

As part of our responsibility to train officials of various departments of the Government and public sector undertakings on the matter of IFRS implementation, meetings were held with the Secretary, Ministry of Urban Development, CMD, Power Finance Corporation, Finance Advisor, Department of Telecommunications, etc. As a matter of follow-up, details of the training programmes/workshops are being sent wherever desired. Also, meetings with officials of various Departments and public-sector undertakings are being arranged. It shall be our sincere endeavour to perform the role in a manner befitting the ICAI as expected of us by the Ministry of Corporate Affairs.

National Foundation for Corporate Governance (NFCG)

Investor Awareness Proposal

Shri Salman Khurshid, Minister of State (Independent Charge) for Corporate Affairs (Independent), while chairing the sixth meeting of the NFCG, talked about a need for nation-wide investor awareness programmes. The meeting was also attended by various regulators, institutes and chambers, which were assigned various roles to undertake the same, i.e. investor awareness programmes all over the country. The MCA has decided to organize I*ndian Investor Week* from July 12 to 17, 2010 on the theme, *'Informed Investor – An Asset to Corporate India'*. We will conduct a mega event in Chennai during the *Investor Week* and hold 750 investor-awareness programmes across the country particularly in remote towns in this financial year. We have issued directions to our Regional Councils and Branches to ensure success of the same. ICAI being a partner in nation building, we consider it our duty to educate and guide our *aam aadmi* (investors) towards safe investments to support the MCA initiatives.

Standards in Internal Audit

The meeting was apprised that the Institute had been formulating standards in internal audit since 2004. The same were not mandatory keeping in view the multidisciplinary nature of such audits in various undertakings. It was suggested that the Central Government on its own or through the SEBI may mandate the adoption of standards in internal audit as formulated by the ICAI for various entities.

Defaulting Government Companies under the Companies Act, 1956

The Indian Institute of Corporate Affairs organized a workshop on *Compliance of Provisions Relating to Finalization and Disclosures of Accounts under the Companies Act, 1956* on May 25, 2010 wherein officials from the C&AG, various State PSUs, Registrar of Companies, Standing Committee of Public Enterprises, Department of Public Enterprises, Ministry of Corporate Affairs and the ICAI participated. In the meeting, the issue of accounts of various PSUs being in arrears, both central & state, was discussed. Public sector plays a key role in Indian economy. It is quite disturbing to note that as of September, 2009, 14 Central PSUs had their accounts in arrears for periods ranging from 2 to 13 years and over 600 operational state PSUs whose accounts are in arrears for periods ranging from 1 to 25 years. It is a horrific knowledge that these companies are taking critical financial decisions even in the absence of required financial information. A three-pronged strategy was agreed to be explored by fixing a rational cutoff in terms of the number of years, e.g. seven years, beyond which accounts would not be considered, by developing appropriate guidance to help the concerned auditors in such situations, and by utilizing services of the CA firms in updation of accounts and imparting training to the officers of the State PSUs. Since the cutoff may have implications on the audit and the concerned auditor would then need to start with an appropriate modification in respect of non-availability of the opening balances, therefore a 'development of appropriate guidance' by the ICAI was suggested.

Resource Building in Public Finance

Owning our responsibility to the Government and our society at large, in ensuring effective utilization of public finance, which involves issues in budgetary allocation, we are happy to announce that we will release, on the auspicious *CA Day*, i.e. July 1, 2010, a book titled, *Issues in Public Finance*, that covers areas like fiscal policy, direct and indirect tax structure, fiscal responsibility and budget management act, public expenditure control measures, and external debt.

Meeting Finance Minister and Other Key Government Officials

Continuing with our efforts to request the Government to review the process of autonomy to banks for the appointment of auditors, a meeting was held with Shri Pranab Mukherjee, Hon'ble Finance Minister of India. Apart from the issue of autonomy to banks in the matter of appointment of auditors, continuance of branch audit and tax audit of branches of public-sector banks, mandatory appointment of chartered accountants as internal/concurrent auditor of banks and allotment of audit of not more than one foreign/private bank, either on central or branch level to one firm, were raised. These concerns were also shared with Shri Ashok Chawla, Finance Secretary, Government of India, during the Council meeting of the Institute on June 18, 2010, which he addressed. The same were also discussed with Shri Alok Nigam, Joint Secretary and Shri Samir K. Sinha, Director, Banking Operations, Ministry of Finance. We also met Shri Motilal Vohra, General Secretary of All India Congress Committee, to press our views on the issue of autonomy of appointment of auditors.

International Initiatives

MRA with New Zealand Institute

On the sidelines of the CAPA Board Meeting, meetings were held with the office bearers of the New Zealand Institute of Chartered Accountants with regard to the mutual recognition agreement (MRA). We were informed that New Zealand was looking at our model of the MRA entered into with the Institute of Chartered Accountants, Australia. Certain positive outcomes are expected towards the end of November 2010.

Agreements with CPA, Ireland and Higher Colleges of Technology, UAE

We are pleased to share with you two important agreements which are likely to be concluded in July 2010. The approval from the Ministry of Corporate Affairs on the MRA with the CPA, Ireland, has been received and we are on the verge of signing this qualification recognition arrangement very soon with them. In a similar development, approval from the MCA with regard to the Memorandum of Understanding (MoU) with Higher Colleges of Technology, Ministry of Higher Education and Scientific Research, UAE has also been received which contemplates a technical cooperation program by the Institute in developing Competency building. We shall sign this MoU upon getting a clearance from the Ministry of External Affairs.

International Meetings

CAPA Board Meeting at New Zealand

The undersigned along with the ICAI Vice President CA. G. Ramaswamy and a past-President CA. Kamlesh Vikamsey attended the CAPA Board meeting held in Wellington, New Zealand. There was a change of guard at the CAPA management with Keith Wedlock, a representative of New Zealand Institute of Chartered Accountants, taking over the reins as its Deputy President. We discussed the CAPA's involvement with the IFAC Board and Committees and its contribution in providing inputs into the IFAC activity and to identify opportunities to consider in planning future initiatives. Issues related to small and medium-sized entities (SMEs) and practitioners (SMPs) were also discussed. It was also discussed how the IFAC could be effective in supporting the profession in the area of corporate governance.

Edinburgh Group and IFAC Meeting at Vancouver: Capacity Building of the SMPs

We had also the occasion to represent the ICAI at the IFAC Board during June

2-4, 2010, at Vancouver in Canada to share the ongoing international perspectives in many of the emerging developments which accountancy sector has on its radar. The IFAC meeting primarily focused on how SMPs can help SMEs perform better and conform to the rules and various operational regulatory challenges that SMPs face. We pointed out in the Edinburgh Group that we must first lay down the criteria of assessment that is objective and amenable to the measurement. We must be able to assess if the jurisdiction has done something for them by its corrective actions, e.g. reducing the cost of implementation by providing checklists, software, etc., and, then assess on regular basis if SMPs were empowered. We suggested to striving to assess, through a survey, the impact of measures in the form of a rise in the income of SMPs over a period, and an increase in mergers and the number of consolidations taking place. Or else, no initiative will be productive without such an assessment, we suggested.

Improving the principle-based Standards on International Accounting Education, various key developments on International Standards on auditing and the issues relating to the definition of the Professional Accountant were also deliberated upon at the meeting. It was important to understand and deliberate upon the changing paradigm and to interact with other counterpart institutions from other accountancy bodies and share areas of mutual interests including the CGA, Canada, with whom currently a dialogue on reciprocity is receiving attention.

WTO

The Ministry of Commerce, Govt. of India, has sought comments on position paper in regard to the accountancy sector in general and India's view point on the position paper on accountancy's service as under formulation at WTO level, as also the disciplines on Domestic Regulations of the GATS agreement. We wish to make it clear that the Institute is not averse to competition and our members are capable of excelling and making their mark felt in professional arena globally. What we aim at is a quid pro quo and reciprocity in its right earnest by addressing the current limitations as also recognition of our qualification and would strive to take up the matter with the policy makers so that the while the interest of our members are protected, and as and when the element of competition gets factored in, equal opportunities are leveraged upon them as well in other territories by pressing for removal of non-trade barriers.

Meeting with Reliance CMD Mukesh Ambani

With a view to spread the ICAI message across the industry, we met Mr. Mukesh Ambani, the Chairman-cum-Managing Director of the Reliance Industries Limited (RIL), the largest Indian business house. Discussions were held on the issues arising out of implementation of the IFRS, new Companies Bill, GST, Direct Tax Code, etc. The meeting was extremely useful. Mr. Ambani assured us of the whole-hearted support of the RIL in our endeavour for training programmes, particularly on the IFRS. He, however, laid stress on the fact that while implementing the IFRS, care may be exercised to study and determine the requirements of the Indian industry. Central Council members CA. Subodh K. Agrawal and CA. Pankaj I. C. Jain were also present in the meeting. We are grateful to our Central Council colleague CA. Mahesh P. Sarda for organizing this meeting.

Meeting with Ms. Tina Ambani from ADAG

A meeting with Ms. Tina Ambani from Anil Dhirubhai Ambani Group (ADAG) was held. She explained the work undertaken by the ADAG particularly with regard to CSR (corporate social responsibility) – like setting up of hospitals, etc., and other charitable initiatives. She was all praise for the valuable contributions made by the Indian chartered accountants to the industry. We apprised her of our publications on accounting in non-profit organizations, etc. Central Council members CA. Subodh K. Agrawal, CA. Bhavna G. Doshi and CA. Pankaj I. C. Jain were also present in the meeting. Role of CA. Bhavna Doshi is praiseworthy for organizing this meeting.

Members' Services

Grant of Fee Exemption

We are pleased to apprise that the Institute has recently decided to grant fee exemption to members of the Institute on the grounds of the physical challenge in related fields to the extent of fifty per cent of the registration fee for the various post-qualification courses of the Institute. We are confident that the fee exemption would facilitate and motivate the members concerned to pursue the post-qualification course of their choice to acquire industry-specific knowledge and develop expertise in the related field.

Capacity Building of SMEs/ SMPs

We, at the Institute, strive to help the SMEs and SMPs in escalating their productivity and services. We are relaeasing, on *July 1*, a toolkit on Correspondence Automation, Management Software and Knowledge Management Solution namely, eSecretary and KDOC. We want the CA Firms and SMPs to grow bigger and create world-class identity. It is proposed to provide eSecretary and KDOC software free of cost and providing free licenses and post sales training to all our members and firms, as a significant addition to their professional assets.

Certificate Filling Centres (CFC)

We want to inform you that as a part of the revival of the CFC scheme, the MCA has proposed the renewal of existing CFC and also allowing fresh application for the new CFC. The new scheme will be launched on July 1, 2010, and may be kept open for two months from the date of the launch. Members can apply for registration/ renewal to the Corporate Law and

Corporate Governance Committee (CL&CGC) of the Institute.

Multipurpose Empanelment Applications
More than 28,800 multipurpose empanelment applications have been received, without any extension of last date. We believe members must have already sent their physical declarations to the office for further processing.

Members' Voice at Branch Felicitation Programmes
The undersigned attended felicitation functions held at Ambala, Amritsar, Jalandhar and Panipat Branches of NIRC, and at Nagpur Branch of WIRC. We had extensive interaction with the members and students of the respective Branches and we assured them that the Council would do everything possible to come up to their expectations. Member were concerned about the issues on IFRS and GST. Branches sought revision of their grant and a larger infrastructure facility, particularly in relation to manpower.

IFRS Training for Employee Members
We are really pleased to see the enthusiasm and participation of our employee members, as they turned up in large number for the workshop on IFRS, *Orientation Programme on IFRS*. During the workshop, first-time adoption of IFRS and issues in revenue recognition and financial instruments were discussed. At its conclusion, the employees expressed their desire for a repeat of the aforesaid programmes and also for holding the programmes on other topics including corporate governance and corporate laws. We consider the quality of manpower of an organization is barometer of its excellence. We assure to conduct such programmes all over the country for our staff members.

Students' Matters

Issues Raised
It is a matter of great satisfaction that the National Conventions held in Ludhiana and Jaipur were attended by a considerably large number of students. The students raised primarily three issues, *viz.* propagation of the concept of secondment, transfer of the articles and revision of stipend. They also wanted us to address their need for coaching classes and quality study materials from the Institute. The matter concerning the transfer of the articles and the revision of stipend will be taken up and discussed in the coming Council meeting to be held from June 29, 2010, to July 1, 2010, at the Institute headquarters.

Pilot Project to be Launched
We are happy to inform our students that as part of the Board of Studies initiatives to ensure uniform quality education to them, it is proposed to connect various ITT centres through web-based model. The proposed Project would be launched in the mid of July. The Board is addressing the issue of holding the coaching classes through virtual classes. The same may be implemented in a phased manner and the first phase may be launched by the end of September 2010.

Recognition to Profession

CA. Piyush Goyal Elected to Rajya Sabha
We are happy to share with you that our member CA. Piyush Goel has been elected to Rajya Sabha from Maharashtra recently. We heartily congratulate him and expect him to take up the case of profession.

ICAI Past-President CA. Kamlesh Vikamsey on UNDP Audit Committee
It is again great news that our past-President CA. Kamlesh Vikamsey has been appointed as the member of Audit Advisory Committee (AAC) of United Nations Development Programme, where he is expected to contribute in building a stronger culture of transparency and accountability. We congratulate him and wish him the best for this 2-year term with the UNDP.

I always remember what Shri G. P. Kapadia had said on our allegiance to the Institute in 1951: '*This is your Institute and mine and of each of us. Let us stand by it very loyally, let the altar of worship be our own Institute, our own country. We owe a homage to our country and our own Institute. It is our sacred duty to build it up, to strengthen it, to get for it the best of traditions and the highest status possible in course of time*.'

We have noticed that at times members have grievances regarding the services rendered by the Institute. Many a time, the grievance takes the form of expression of irreverence towards the Institute. It is really strange how they can dissociate themselves from their roots. We would only suggest they should strive to know more about the Institute and its glorious intellectual tradition, and, we are sure, there will automatically be an emergence of respect in *their* attitude to their Institute. Let me say that that it is *our* Institute and we need to show the reverence that the Institute deserves. In all, it is our *Alma Mater* and we all must have a sense of pride in being a member of the Institute which has produced chartered accountants second to none.

Human beings are turning utilitarian and, therefore, are in a hurry to get rid of everything that is old and past. It is as if we want to get disconnected from our history. If, actually, this is done, we will have to unlearn all our learning and forget our cognition processes, and go back to the pre-historic days. That is to say, our knowledge at present is because of the history behind us. We can not afford to ignore our tradition, as, after some years, we have to and *will* get merged with it.

And it is with this spirit, we want to congratulate all associated with the profession on the coming *CA Day*, i.e. *July 1*. Let us celebrate together the glorious gift of our forefathers to our profession. *Adieu!*

Best Wishes

CA. AMARJIT CHOPRA
President, ICAI
June 27, 2010

Journal Effectively Catering to Knowledge Needs of Readers

The Chartered Accountant Journal has indeed become a landmark and holds an esteemed position amongst all professional magazines. The contents and quality of articles in journal have improved a lot. The layout and presentation of the journal is also attractive and reader friendly. The journal in a way has come of age effectively catering to the knowledge needs of the readers. However, one area that needs to be improved is the binding as some times the pages get unstuck making it difficult to preserve it for future reference.

-CA. Sanjay Khandelwal, **Kota**

The three articles on IFRS published under 'Accounting' section of June 2010 issue of the journal were very informative and knowledge-enhancing and effectively brought different aspects of IFRS in Indian context. All the authors concerned need to be congratulated for the same.

-CA. T. Dharan

The article titled *'Beat the VAT; Say Fryum is Papad'* published in June 2010 issue of the journal made an interesting reading. The writer has very clearly and lucidly explained the concept of Common Parlance Test. I think there are a number of products which have been wrongly understood and thus taxed or otherwise. One such example is rubber (natural) and reclaimed rubber where there is a vast difference in both the products. The information on the application of Common Parlance Test would be an added armour for professionals to convince the authorities in case of any confusion in their minds with regard to assessments and appeals.

-CA. N. Raama Prasad, Bangalore

The article titled *'Way to a Peaceful Secured Life: Right Financial Planning Through Life Insurance'* was interesting and informative. It effective provided an overview of the nitty-gritty and need of Insurance in present times. We should have more similar articles.

-CA. Vijay Khetawat

Institute's IFRS Initiative Commendable

The Institute is leading the convergence initiative which is commendable. It is welcome that the Institute also runs a certificate course on IFRS besides having recently launched a massive nation-wide drive on convergence to IFRS. I am sure this drive will go a long way in the development and progress of the accountancy professionals in the country. However, I request the Institute that classes for certificate course on IFRS be conducted at branch level also so that maximum members can take benefit of the course.

-CA. Anil P. Nair, Kochi.

e-Sahaayataa Initiative is Great

Congratulations on the successful implementation of the *e-Sahaayataa* service. It is really working well as I got a long pending problem of mine resolved timely. I hope the esteemed institute will continue with such member-student friendly changes and far reaching initiatives.

-Deepak Joshi, CA Student

It is a very good initiative taken by our institute. The selection of name of the service i.e. *e-sahaayataa* is also very good.

-CA. Subhash Chandra Podder, Kolkata

I congratulate the Institute leadership for implementing an innovative member-student friendly concept and initiative of e-Sahaayataa. This project will be very useful for all stakeholders of the ICAI. The suggestions for making this service more useful can be implemented as we progress with the project.

-CA. B. Sarup

The Institute deserves to be heartily congratulated for the launch of *e-Sahaayataa* services. I have used the demo version and placed two queries for the same out if which i was replied for one within 24 hours. This was really beneficial and helpful for me.

- CA. Jai Goel

It is a very good effort. Congratulations for the initiative. I hope it will continue and fulfil what it promises.

-CA. Surinder Sareen, Dubai

It is very great and welcome step towards further enhancing the efficiency of ICAI. It will ensure close interaction between members-students and the Institute and would remove the bottlenecks and eliminate the distance and gap between the ICAI and its members and students.

-CA. M. K. Dublish

Corrigendum

Readers attention is invited to the fact that the article titled *'IFRS 3- Business Combination: An Overview'* published on page 1955 of June 2010 issue of the journal was co-authored by Mr. Chintal Patel, whose name was erroneously left out in print. The error is regretted.

ICAI's Heartiest Congratulations to CA. Piyush Goel and ICAI Past-President CA. Kamlesh Vikamsey!

CA. Piyush Goel Elected to Rajya Sabha From Maharashtra

ICAI Past-President CA. Kamlesh Vikamsey on UNDP Audit Advisory Committee

Editor

For the Attention of Readers

Readers' attention is specifically invited to the fact that the views and opinions expressed or implied in The Chartered Accountant journal are those of the respective authors only, and not of the ICAI. The ICAI bears no responsibility of any sort whatsoever in case of any action taken by any reader based on any article published in the Journal.

Write to Editor

'Information is Power' and our ever-evolving profession needs more and more of that today than ever before. Do you have any relevant points to make, experiences to share, and views to spread among the CA fraternity? If yes, e-mail us at eboard@icai.org/ nadeem@icai.org or write to:
The Editor, The Journal Section, ICAI, A-94/4, Sector 58, Noida (UP) - 201301

Governor of Madhya Pradesh and ICAI Past President CA. Rameshwar Thakur

Rameshwar Thakur

RAJ BHAVAN
BHOPAL-462 052

June 8, 2010

MESSAGE

It is a matter of great pleasure that the Institute of Chartered Accountants of India, New Delhi, is bringing out a special issue of journal "Chartered Accountant" on the eve of CA-DAY on July 1, 2010 and is celebrating the day gracefully.

I appreciate the excellent financial reporting by the journal. Accountancy Professionals in this age of globalisation, will have to progressively raise their standards to match global parameters with emphasis on greater accountability and transparency. They will be able to match the needs of the nation in its ever increasing development activities in the years to come. It is also necessary to develop in-house facilities and local level facility centres on free, or least-cost basis, to provide professional guidance by the brilliant members to the young practitioners, small firms and individuals engaged in the profession. Study circles for students in small places can also be organised by the senior experienced members and also by bright young members, on voluntary basis.

My best wishes.

Rameshwar Thakur

(Rameshwar Thakur)

Phone : 0755-4080170, 4080180 FAX : 0755-4080172

ICAI Meets MCA

ICAI President CA. Amarjit Chopra discussed the work plan of Committee on Sustainability Reporting of ICAI-ARF (Accountancy Research Foundation) with the Minister of State (Independent), Ministry of Corporate Affairs, Shri Salman Khurshid in presence of former Union Minister CA. Suresh Prabhu (June 7, 2010)

ICAI Meets the Karnataka Governor

ICAI President and Vice President CA. Amarjit Chopra and CA. G. Ramaswamy respectively with Central Council members CA. K. Raghu and CA. Madhukar N. Hiregange, and Bangalore Branch Chairman CA. Shambu H. Sharma with the Hon'ble Governor of Karnataka His Excellency Shri Hans Raj Bharadwaj (March 20, 2010)

ICAI President and RIL CMD Meet at Mumbai

ICAI President CA. Amarjit Chopra with Central Council members CA. Mahesh P. Sarda, CA. Subodh K. Agrawal and CA. Pankaj I. C. Jain stands with the CMD of Reliance Industries Limited, Mr. Mukesh Ambani, honouring the legendary (Late) Shri Dhirubhai Ambani (June 15, 2010)

ICAI President Meets Tina Ambani

ICAI President CA. Amarjit Chopra meets Tina Ambani (wife of Shri Anil Dhirubhai Ambani) with Central Council members CA. Subodh K. Agrawal, CA. Bhavna Doshi and CA. Pankaj I. C. Jain in Mumbai (June 15, 2010)

e-Sahaayataa is Launched

ICAI Vice President CA. G. Ramaswamy takes the call with a strategic support from Central Council members CA. Subodh Kumar Agrawal, CA. P. Rajendra Kumar, CA. Sanjay Aggarwal and CA. Pankaj Tyagee, and Senior Faculty (IT) Shri Rajnikant Verma (June 1, 2010)

Rise to the Occasion

ICAI President CA. Amarjit Chopra attends a felicitation ceremony organised by the Panipat Branch of NIRC with Central Council member CA. Sanjay Aggarwal, NIRC Chairman CA. Atul Gupta and others (May 26, 2010)

President Opens the Seminar on Professional Enrichment

ICAI President CA. Amarjit Chopra addresses the Seminar organised by the Nagpur Branch of WIRC, while Central Council member CA. Jaydeep N. Shah can be seen among those on the dais (May 29, 2010)

Meeting with Finance Minister

ICAI President and Vice President CA. Amarjit Chopra and CA. G. Ramaswamy, and Union Finance Minister Shri Pranab Mukherjee with Central Council member CA. Pankaj I. C. Jain and Director, Board of Studies, Shri Vijay Kapur.

President Visits Amritsar Branch

ICAI President CA. Amarjit Chopra addresses the Branch, while Central Council member CA. Sanjay Aggarwal, NIRC Chairman CA. Atul Gupta and Amritsar Branch Chairman CA. Sanjeev Gupta share the dais with him (May 25, 2010)

President Inaugurates the National Convention for CA Students at Jaipur

ICAI President CA. Amarjit Chopra lights the lamp while the Central Council members CA. V. Murali and CA. Vijay Kumar Garg join their hands for celebrations (June 12, 2010)

Ambala Branch Felicitates President

ICAI President CA. Amarjit Chopra is being honoured with a presentation of a shawl while the Ambala Branch Chairman CA. Rajiv Garg fondly looks on. (May 30, 2010)

ICAI Heads Meet Members from Vancouver

An informal meeting of the ICAI President CA. Amarjit Chopra and the Vice President CA. G. Ramaswamy with the Members in Vancouver (June 2-4, 2010).

ICAI President Inaugurates Punjab State Convention of CA Students

ICAI President and Vice President CA. Amarjit Chopra lighting the lamp while Central Council members CA. Vinod Jain and CA. Pankaj Tyagee, and NIRC Chairman CA. Atul Gupta celebrate the occasion.

Jalandhar Branch Felicitates President and Central Council & NIRC Members

ICAI President CA. Amarjit Chopra shares the dais with Central Council member CA. Sanjay Aggarwal, NIRC Chairman CA. Atul Gupta and Jalandhar Branch Chairman CA. Ashwani Gupta (May 26, 2010)

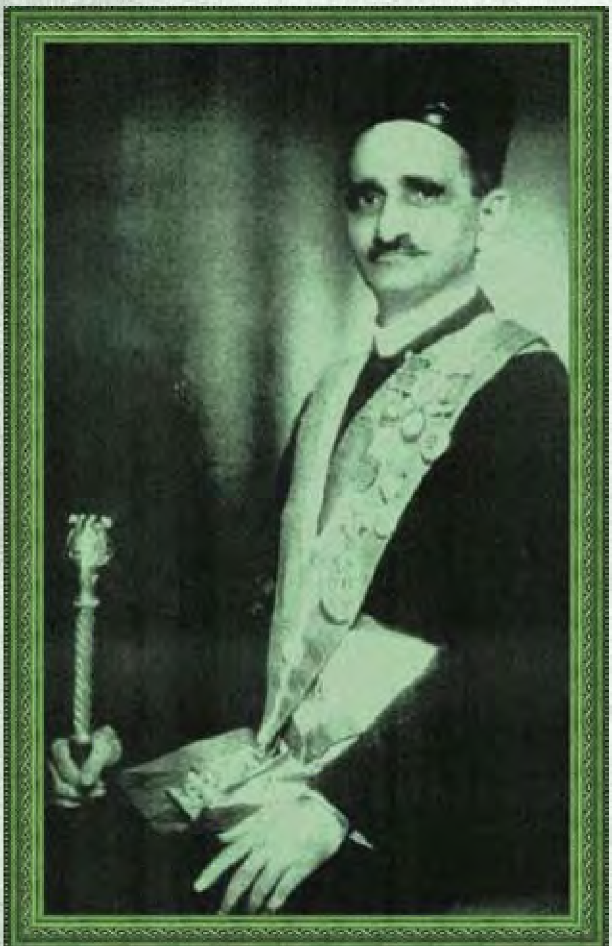
tracing the roots

- **Accounting Legends**
- **Against Discrimination: Struggle for the Designation of *Chartered***
- **Autonomy of the Profession: Role, Challenges and Future**
- **Origin of the Accountancy Profession**
- **Memorable Moments**

Series: Legends in the Accounting Tradition of India

Shri S. B. Billimoria (1877-1958)

Shri Shapoorjee Bomanji Billimoria, as described by Shri Sorabji Engineer, was *'the first and foremost and the only one of his times who was implicitly trusted, highly respected by the eminent judges of High Courts and was ardently sought for and demanded by those in charge of banking, insurance, industrial, public utility and various other concerns involving huge amounts of working capital. Mr. Shapoorjee B. Billimoria rose from day to day until he reached his zenith and secured the audits of all concerns biggest of their respective types.'* He went on to record: *'I have rather dealt at some length with Sir Shapoorjee B. Billimoria and with his activities…because of my firm belief that without the mention of Sir Shapoorjee B. Billimoria and of his activities, the history of the profession of Accountants and Auditors would be missing its very soul.'* Second President of the ICAI, CA. G. Basu had said: *'As a person, he was*



head and shoulders above many accountants of his time and has left an indelible mark in the history of the profession of early years in India.' In the words of a past-President of the ICAI, CA. Y. H. Malegam, Shri Billimoria *'had played a part in the introduction of the first statutory provision for audit in 1913, from which event the profession in this country is deemed to have commenced. During the following thirty-six years, there was hardly any aspect of the development of the profession in which he was not consulted and in which he did not actively participated.'* Such strong commendations from the doyens of the accountancy profession do not come out for nothing.

After passing the London Chamber of Commerce examination with distinction in 1899, Shri Billimoria soon established The Commercial Training Institute for Accountancy that provided training in accountancy and other commercial subjects. He rose to the stardom in the field of auditing when he, as an appointed investigator, exposed the fraud masterly in the notorious failure of Dwarkadas Dharamsey, well-known merchant and industrialist, one-time sheriff of Bombay. In his recommendations after investigation, he said that audit of companies should be entrusted to auditors with expert technical knowledge, experience and integrity, and that they should be genuinely independent of the management. It was partly as a result of such recommendations that the Companies Act, 1913 provided for the first time for the licensing of auditors. He went on to expose frauds and castigated fearlessly the negligence and ineptitude of Banks' directors in various other cases. Such was the trust he enjoyed that he was appointed, against the likes of Mr. A. F. Ferguson, the auditor of the Presidency Bank of Bombay in 1911, which came to be known as the Imperial Bank of India and, later, as the State Bank of India.

In response to the communication from the Government of India in June 1930 regarding recommendations for appointment on the Indian Accountancy Board to be constituted to advise the Governor General in Council on all matters of administration relating to accountancy and to assist him in maintaining the standards of qualification and conduct required of auditors, Shri Billimoria was the obvious choice from the Government of Bombay. He remained its obvious choice for nomination and served on the Board till its conclusion in 1948. Shri Billimoria was clear that the volume and nature of work should be the deciding criterion for training the clerks. He was firm that articled clerks must learn the principles of higher ethics and morality. Despite his favour for elections with regard to the Board's constitution, he feared prophetically this might result into the exclusion of better qualified professionals. He wanted some seats to be reserved for European Accountants, as he had a vision that without their active cooperation, it would be difficult for the Board to apply for a Charter.

Shri Billimoria was elected a member of the Corporation of Accountants, London, in 1905 and a fellow of the Institute of Certified Public Accountants, London, in 1906. In 1910, he founded Society of Professional Accountants, Bombay, as its Honorary Secretary & Treasurer, with Mr. Turner Green as its President. In 1914, he became the member of the Central Association of Accountants, London. He was awarded the British Empire Order, MBE (Member) and later knighted by the British Government in 1928, being the only Indian accountant to be knighted.

Shri Billimoria voiced his nationalism in response to a questionnaire from the Minority Rights Advisory Committee: *'The Parsi community has never asked for separate representation…We would sink or swim with the nation.'* Shri G. P. Kapadia, first President of the ICAI recorded, *'He* (Shri Billimoria) *rose to the highest and occupied a key position not only in the professional field but also in public life.'*

(Contributed by the Journal Section of ICAI)

Series: Legends in the Accounting Tradition of India

Shri G. P. Kapadia (1905-1983)

Shri Gopaldas Padmasey Kapadia is most popularly and commonly known as the first President of The Institute of Chartered Accountants of India. Shri Kapadia is equally regarded for his book about the evolution of accountancy in India, *History of Accountancy Profession in India*, still considered the best among primary/secondary resources in the field of Indian accountancy by researchers across the world. This well-documented history comes across as an act of his deep devotion and his ardent love for his profession. He is fondly remembered as the father of the chartered accountancy profession in India. Having witnessed the realisation of a prolonged effort as the birth of autonomy in form of the establishment of the Institute under an Act of Parliament, he had a unique honour of presiding over the Council as its first elected President toward the destiny of the Institution, a position that he held for three consecutive years throughout the period of this Council.

He served his articleship under Shri Sorabjee S. Engineer who he respectfully considered and acknowledged as his Guru, who happened to be the first to serve articleship in India under an approved Incorporated Accountant, i.e. Shri K. S. Aiyar. Shri Kapadia founded his own firm in Mumbai in 1929.

Shri Kapadia got recognition through inclusion of his name into the list of members for the Indian Accountancy Board in 1944 by the Department of Commerce. He was nominated by the Federation of Indian Chamber of Commerce & Industry (FICCI) in the non-official category of the Board; there, he shared space with the stalwarts like Shri Shapoorjee B. Billimoria and Sir Bernard J. Whitby, both nominated by the Government. During the 14th meeting of the Board in 1946, Shri Kapadia expressed his concerns over the automatic recognition of Registered Accountants (RAs) to train the articled clerks that this should be dispassionately discussed. The FICCI again nominated Shri Kapadia in 1947 for the next Board. In 1948, he had a meeting with the Secretary, Department of Commerce, Shri C. C. Desai, regarding a need for the constitution of the Expert Committee in view of discussing the autonomy issues of the accountancy profession. Shri Desai, Chair of the Committee, took steps quickly with the support from other members, especially from Shri Kapadia. The Committee forwarded a draft Bill for the consideration of the Government and recommended: *"The Registered Accountants should in future be designated as 'Chartered Accountants'."* In the meeting held on November 18, 1948, Shri Kapadia informed that Charter of the English Institute was being amended and an application was made to the King whereby prohibition of the use of the designation Chartered Accountant by persons of other Institutes belonging to other Dominions was being taken away. This made the Board realise that the designation 'Chartered' was not far away from the Indian accountants.

Shri Kapadia showed his strong mettle as head of the Institute too, when he took up the matter with the Government of India after receiving a message regarding the Association of Accountants in East Africa that it was not willing to recognise the Indian Institute. He sent a detailed representation on the matter to the then Indian Commissioner in British Africa, and as a result the Association of East Africa had to recognise the justified claim of the Institute and include it as one of the additional member bodies.

Shri Kapadia was appointed by the Government a member of the *Direct Taxes Administration Enquiry Committee* (1958-59) under the chair of Shri Mahavir Tyagi, paving the way, along with the efforts of the Law Commission, to the evolution of the Income-tax Act, 1961. Shri Kapadia was also a member of the Company Law Committee recommending the changes in the Company Law Act. In 1958, he was the President of the Indian Merchants' Chamber of Bombay that was established in September 1907 to wrest economic Swaraj for people under the inspiration of great leaders of India and that had Mahatma Gandhi as its unique honorary member.

Shri Kapadia was regarded by Shri Desai as the President *'who had rendered signal service to the profession and who commanded the unanimous support from the members of the Council and, without doubt, the unanimous support of the profession.'* In recognition of his unique and significant contribution to the ICAI in particular, and to the accountancy profession in general, the Institute started the award of *G. P. Kapadia (First President) Gold Medal* and *G. P. Kapadia (First President) Silver Medal*, to be given to the toppers of the Final and First Examinations respectively of the Institute.

Let us observe a modest acknowledgement of Shri Kapadia's contribution in the words of Shri Desai: *'…it was with your personal cooperation, advice, and guidance that we could give the profession of accountancy a new personality and a dignity from which it was suffering in the past because of the higher name of British Accountants.'*

(Contributed by the Journal Section of ICAI)

Against Discrimination: Struggle for the Designation of *Chartered**

Not all Indian accountants were chartered accountants despite their like abilities and, thereby resulting, rightfulness to audit accounts of companies in India. Accountants who were members of the chartered societies of the United Kingdom, were allowed to use the designation *Chartered Accountant. These accountants were socially perceived* and considered as accountants of higher order than the accountants whose names were simply enrolled in the Register of the Governor General in Council, i.e. *Registered* accountants. The Council authorised accountants to audit by granting them a certificate of practice. General perception of the investors and common public was that accountants without the designation *'chartered'* were inferior auditors. This negative distinction and inferior treatment revolutionised the Registered accountants for a fight for equality and gradually instigated them towards a struggle for dignity.

Through their constitution *Indian Society of Accountants and Auditors*, in Bombay, Registered accountants systematically attempted to secure the appellation, *Chartered Accountant*, for themselves through a memorandum. This memorandum was discussed during the discussions on the sub-Clause (b) of the Clause 75 of the Companies (Amendment) Bill in the Legislative Assembly on March 23, 1936, which purported to amend the Section 144 of the Bill by adding to its sub-Section (2B): *and when so acting to append to his signature the style* '*Chartered Accountant (India)*'. As a result, the Legislative Assembly witnessed an organised effort for securing the desired designation of '*chartered*' with an almost agreement among the members of the Assembly. The memorandum read on page 6:

> *'We should be allowed to carry on as accountants in our own motherland with a decent and self-respecting status, without any artificial device being imposed on us which would brand us, and, therefore, the whole nation, with an inferiority complex.'*

This memorandum was a reminder of another recommendation of the Indian External Capital Committee in 1925 that steps should be taken to establish the order of the chartered accountants in this country, which was not taken up by the Government. The Committee that included

*Contributed by the Journal Section of ICAI

members like Pt. Madan Mohan Malviya, Mr. Vithalbhai Patel and Sir P. S. Sivaswami Aiyer suggested a formation of the all-India Institute of chartered accountants.

The President of the Legislative Assembly was Sir Abdur Rahim. The discussions in the assembly, however, started with discouraging argumentations from Mr. Sushil Chandra Sen (a nominated official of the Government of India) and Sir Nripendranath Sircar (a Law Member of the Viceroy's Executive Council). Mr. K. Ahmad (from Rajshahi Division) helped them further. Mr. Sen considered the memorandum an effort of usurping the superior designation without holding any merit: there was '*neither any logic nor any justification for bestowing a designation*'. Sir Sircar was quite popular among the English for attacking the Indians being an Indian. In this case too, he warned: '*any efforts on the part of the Government of India to take up this matter will be a cause of retardation and not progress, so far as the Indian accountants are concerned.*' He pointed out that this designation will '*enable them to commit a fraud, on at least a part of the public by posing as Chartered Accountants*' and tried to ridicule the members-in-support in lowly language. He also informed the Assembly to have received many letters of protest and resolutions from Indians at Calcutta objecting to the provision made by the Select Committee *(that it was mandatory for the auditor to get a certificate from the Governor General in Council to act as an auditor and that the Government might make rules for grant, renewal, or, cancellation of such certificatesand can provide for the maintenance of a register of accountants, can prescribe qualifications and emoluments on the register, and, so on).*

Mohan Lal Saxena (Lucknow Division) and Pt. Krishna Dutt Paliwal were among the firsts to rise to the defence of the Registered accountants' case. They were then amply supported by Mr. N. M. Joshi (nominated non-official), Pt. Govind Ballabh Pant (Rohilkund and Kumaon Division), Pt. Krishna Kant Malaviya (Benaras and Gorakhpur Division), Pt. Lakshmi Kanta Maitra (Presidency Division), Sir H. P. Mody (Bombay Millowners' Association), Mr. M. S. Aney (Berar Representative), Sir Cowasji Jehangir (Bombay City), Mr. M. A. Jinnah (Bombay Division) and Mr. Bhulabhai Desai (Bombay Northern Division). Mr. Jinnah came out slowly but strongly to the extent: '*Mind you, I stand for Indian talent, I want complete privileges and same rights as those given to anybody else in my country.*' Pt. Malviya, Pt. Pant, Sir Jehangir and Mr. Desai argued thoroughly for the cause of the Registered accountants. In fact, it was Mr. Bhulabhai Desai who first mentioned the need 'to create by means of a statute an autonomous body of accountants in India' so that the body would have a constitution of its own and a power to grant the required designation. Finally the Deputy Speaker Shri Akhil Chandra Datta pronounced the motion adopted.

Such a promise from the Government was fulfilled only after the appointment of the Accountancy Expert Committee in 1948 that decided to call all practicing Registered accountants by Chartered accountants. After this, the dealing Ministry (of Commerce) sought the opinion of the Ministry of Law, which noted: '*...a Charter can only be granted by the Crown...'* In the second and final meeting of the Committee in June 1948, the Chairman Mr. C. C. Desai discussed the draft Bill and the legal difficulty in adopting the recommended designation. It was also discussed that Indian accountants must be called *chartered accountants* only, as this designation inherited a public impression that chartered accountants had better qualification. Mr. G. P. Kapadia, a member of the Board then, supported and shared the same concern. It was then decided to call the Act as Chartered Accountants Act. Then the Ministry of Commerce referred its recommendations on the adoption of the name to the Ministry of Law, while noting the positive advantages against this adoption. The Ministry of Law noted that the Dominion Parliament is not incompetent to make a law to that effect and expressed its view that the Act should not be called Chartered, as charter meant royal charter by British usage. The Ministry of Commerce noted the viewpoint of the Ministry of Law and by referring to the speeches made by Pt. Paliwal, Pt. Pant and Mr. B. Desai, and concluded that there was *'no insuperable legal objection in using the designation 'Chartered Accountants' that precedents exist in other parts of'* the British Dominions. It further agreed that the same might be adopted '*for designating the members of the profession in this country.*'

Indian Accountancy Board (1938)

Mr. S. B. Billimoria, a member of the Indian Accountancy Board, submitted to the Accountancy Expert Committee in June 1948 that it would not be legally correct to use 'chartered accountants'. He cited the example of the American accountants and their Institute and said that their standing was not any low in comparison to the chartered accountants and institutes for the same. However, the Committee, after careful consideration, decided that *'the members of the profession in this country should be designated as Chartered Accountants.'* A little later in July 1948, a member of the Committee, Mr. N. R. Mody, voiced his concerns over the designation accepted and suggested alternatives to the Committee. However, the Committee went ahead with its decision. During the 18th meeting of the Indian Accountancy Board, Mr. Kapadia informed that the Charter of the English Institute was being amended and that an application regarding the abolishment of the prohibition of the use of the designation 'Chartered Accountants' was in process. Mr. S. Ranganathan, the Chairman of the Board, suggested that the Board did not recommend the practice of using '(India)' as part of the designation and everybody agreed.

The Government drew attention of the Cabinet to the recommendations of the Expert Committee that the Registered Accountants should be called Chartered Accountants in future and an institute of Chartered Accountants should be incorporated by a special Act of the Legislature, despite an objection raised by the Ministry of Finance over the designation, which was duly responded by the Ministry of Commerce. The Chartered Accountants Bill as vetted by the Ministry of Law was introduced in the Constituent Assembly of India and was consequently referred to the Select Committee that submitted its supportive report along with the redrafted Bill on March 1, 1949, despite a dissent from its member Mr. H. P. Mody who opposed the adoption. The Committee redrafted especially Clause 7 of the Bill by inserting its comments on the name of the firm of chartered accountants. There were no further obstacles and the Bill retaining the Select Committee's corrections was eventually passed by the Legislature and assented to by the Governor General.

The discussions held in the Legislative Assembly and their patriotic undercurrent, even today, retain the power to affect and impress all about the glorious caretakers and their passion for the accountancy profession in their times. Readers will sure find the following excerpts from the historic debate in March 1936 not only interesting but inspiring too, especially so because the people who argued for the case were politically quite aware of their rights and responsibilities:

Pandit Shri Krishna Dutta Paliwal:

"In the first place, the Indian Society of Accountants and Auditors say that the belief that the designation of "Chartered Accountants" is the exclusive and monopolised privilege of the chartered accountants who are qualified only in England is erroneous. In fact, such is not the case. Almost all the Dominions in the British Empire (except India) have themselves provided, independently of the English qualification, for the awarding to their nationals the designation of "Chartered Accountants" by the legislative enactments. Sir, it is written here in the memorandum sent by the Indian Society of Accountants and Auditors that the designation "Chartered Accountants" is allowed in the following countries: Canada, Alberta, British Columbia, Manitoba, New Brunswick, Nova Scotia, Ontario, Prince Edward Island, Quebec, Saskatchewan, South Africa, Transvaal, Natal, Cape of Good Hope, Orange Free State, South Rhodesia. So the suggestion of my Honourable friend that this designation is confined only to these five or six societies in UK is wrong. I submit this is done in all other parts of the British Empire also. Now, Sir, I admit that this is done not by the Company's law but by special laws enacted for the purpose."

"It may be said or it may be hinted that the professional qualifications of the Indian accountants are not so good as those of the "Chartered Accountants" of other countries – I say that it is not so. The Indian Society of Accountants and Auditors says: 'Regarding the tests in general education, and practical training and the range of knowledge in professional subjects required by Government before granting the auditor's diploma of Registered Accountant, they are undoubtedly rigorous and connote a high standard and a wide range of professional attainments as admitted by the Government themselves and they compare quite favourably with those required in England and in other British Dominions…'…I do not understand why Indian accountants should be put to any disadvantage for the benefit of the British or England-returned accountants."

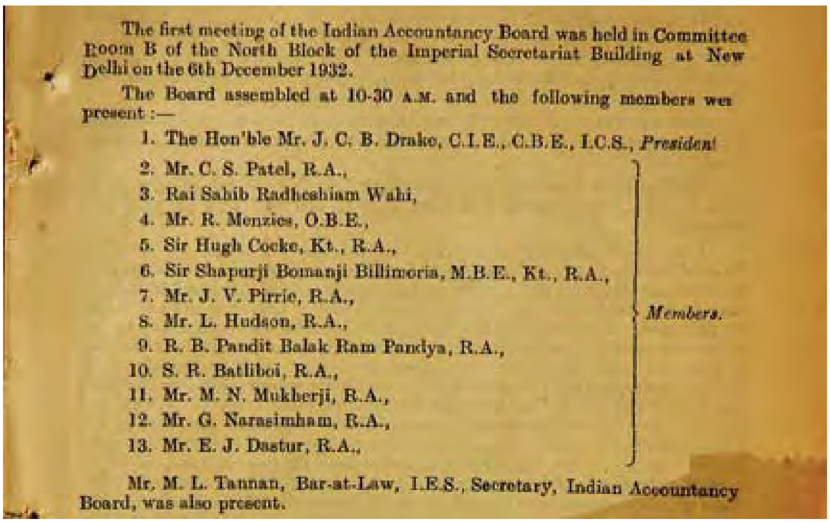
"Why should they (Indian accountants) be prevented from designating themselves as "Chartered Accountants" simply for the advantage of those who have wasted the hard-earned money of Indian in other countries? How is it justifiable that for that very reason and no other, these England-returned accountants should demand special privileges for themselves? I have seen the syllabuses which are prescribed for the Accountancy examinations in different parts of the British Empire, and I am satisfied that the Indian examination is as stiff, I may even say, it is superior in certain respects to the examination which the accountants in other countries, especially these so-called "Chartered Accountants" have to undergo."

"...another inconvenience which the Indian accountants have to suffer on account of this invidious distinction is that investors and the general public wrongly believe that if an auditor does not hold the designation of "Chartered Accountant", he is no good and he is looked upon as an inferior class of auditor. Even Courts of law in India while passing orders in matters concerning accounts and audit at times inadvertently make similar mistakes."

Pandit Krishna Kant Malviya:

"Aristotle thought that man is a social being, Karl Marx and others also of his way of thinking made out that man is always actuated by selfish motives, that classes always are anxious to crush the masses. Fraud and Jung have come to the conclusion that sexual instinct is the incentive for all our activities, and so on, but Sir, it was left to the Honourable the Law Member to come forward and declare that our poor registered accountants only wanted to be chartered accountants because they are anxious to commit frauds and to deceive the unwary public...The Governor General or the Viceroy in every-day parlance is said to represent the King but so far as the poor registered accountants are concerned, he cannot issue a royal charter; and what these poor accountants feel is this, that in their own motherland they cannot rise to the highest positions. In spite of passing examinations, in spite of all that they may do, they will be dubbed as inferior beings. This is what they resent."

"Why is it that there is a glamour around the name of the chartered accountants? Why is it that the Government of Indian themselves attach more importance to an examination which is held in a foreign country as compared with the examination which they hold themselves? The Registered Accountants want that the Government of Indian should raise the standard of examination as high as possible. These accountants are proficient and are well up so far as their duties are concerned, and they say that they should be allowed to call themselves chartered accountants, or anything which will suit the Government of India and which will compel the latter to regard them as the best in this land, as those who can be compared with the best in other lands."



The first meeting of the Indian Accountancy Board was held in Committee Room B of the North Block of the Imperial Secretariat Building at New Delhi on the 6th December 1932.

The Board assembled at 10-30 A.M. and the following members wer present :—

1. The Hon'ble Mr. J. C. B. Drake, C.I.E., C.B.E., I.C.S., *President*
2. Mr. C. S. Patel, R.A.,
3. Rai Sahib Radheshiam Wahi,
4. Mr. R. Menzies, O.B.E.,
5. Sir Hugh Cocke, Kt., R.A.,
6. Sir Shapurji Bomanji Billimoria, M.B.E., Kt., R.A.,
7. Mr. J. V. Pirrie, R.A.,
8. Mr. L. Hudson, R.A.,
9. R. B. Pandit Balak Ram Pandya, R.A.,
10. S. R. Batliboi, R.A.,
11. Mr. M. N. Mukherji, R.A.,
12. Mr. G. Narasimham, R.A.,
13. Mr. E. J. Dastur, R.A.,

(2–13) *Members.*

Mr. M. L. Tannan, Bar-at-Law, I.E.S., Secretary, Indian Accountancy Board, was also present.

Members of the First Meeting of the Indian Accountancy Board (1932)

Pandit Govind Ballabh Pant:

"...it seems to me really incomprehensible as to why the Government should not be prepared to call people, who are entirely under their control, chartered accountants if they are prepared to empower other bodies to give them that designation? It comes to this that because a person is entirely under my control and because I can regulate the syllabus, the examination and everything that has to be done with reference to the examination of accountancy, therefore he should not be called a chartered accountant, but if I were to entrust these duties to another independent person, then we can do so! That is really illogical."

"If Honorable Members will be pleased to look at Section 144, they will find that no Act framed with the sole object of establishing a Board of Accountancy and of prescribing a designation for persons securing the certificates through such examinations could be more thorough than this Section 144...It controls and regulates the entire profession, Accountancy for the whole of India, for the formation of Local Accountancy Boards, for the registration of qualified Accountants, for the control of their professional etiquette and all other things connected with the establishment, constitution and regulation of these Boards. Now, Sir, are we to be blamed because this provision forms part of the Companies Act and is not a separate statute by itself?"

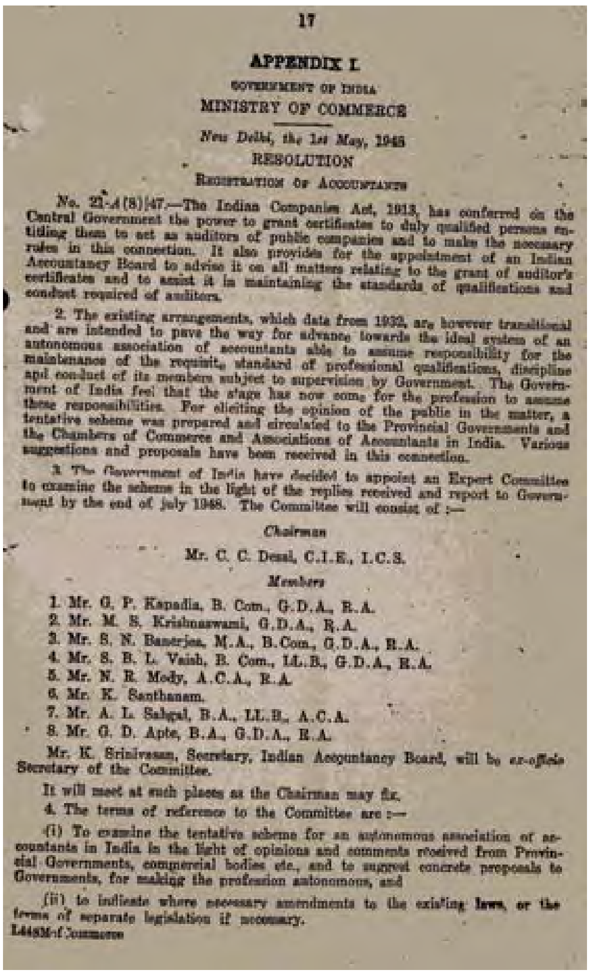
"If there are anomalies, who is to blame for it? Why did they not take steps to establish this order of Chartered Accountants in this country as recommended unanimously by this Committee in 1925 and since then twelve long years have elapsed, but no steps have been taken to establish this order of Chartered Accountants in this country."

"...the difference is only this, that while the members of the Indian Civil

Service are called I.C.S. the members of the provincial civil services in our country performing duties even more onerous and responsible, because they are brown in colour, are called P.C.S. and get lower salary emoluments. That is the main difference. So far as the status in the matter of duties and responsibilities goes, I do not see any distinction between the two. The fact remains that a registered accountant is an Indian, - registered accountants are exclusively Indian, - but so far as the fairies only a few lucky Indians are admitted. So, Sir, the difference is not altogether non-racial."

"Does Sir Homi Mody really think that an ordinary company manager here really knows the difference between a registered accountant and a Chartered Accountant? Why does he favour a Chartered Accountant? Why does he favour a Chartered Accountant at the cost of a registered accountant? ...The difference is that the man has only heard the name Chartered Accountant. The name Registered Accountant is not known; so men who have gone through the fire here and possess similar qualifications are denied the opportunity which they are entitled to because of the wrong designation. And why should this invidious distinction be made in the name?

"I want a common status for all of them; but I am prepared to offer a compromise, and it is this. Let it be a rule that even Chartered Accountants practicing in this country will be called Registered Accountants...If they are registered, call them also Registered Accountants. Do not accept their status as Chartered Accountants as adequate for the discharge of their duties here. It is because they are registered here that they possess those qualifications. Eliminate that phrase "Chartered Accountant", call them Registered Accountants. Make it penal for anybody to call himself a Chartered Accountant here, and I will not quarrel. Let all be called Registered Accountants. That also will satisfy my sense of national pride; it will give me equality with other alien people."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APPENDIX I

GOVERNMENT OF INDIA

MINISTRY OF COMMERCE

New Delhi, the 1st May, 1948

RESOLUTION

REGISTRATION OF ACCOUNTANTS

No. 21-A(8)/47.—The Indian Companies Act, 1913, has conferred on the Central Government the power to grant certificates to duly qualified persons entitling them to act as auditors of public companies and to make the necessary rules in this connection. It also provides for the appointment of an Indian Accountancy Board to advise it on all matters relating to the grant of auditor's certificates and to assist it in maintaining the standards of qualifications and conduct required of auditors.

2. The existing arrangements, which date from 1932, are however transitional and are intended to pave the way for advance towards the ideal system of an autonomous association of accountants able to assume responsibility for the maintenance of the requisite standard of professional qualifications, discipline and conduct of its members subject to supervision by Government. The Government of India feel that the stage has now come for the profession to assume these responsibilities. For eliciting the opinion of the public in the matter, a tentative scheme was prepared and circulated to the Provincial Governments and the Chambers of Commerce and Associations of Accountants in India. Various suggestions and proposals have been received in this connection.

3. The Government of India have decided to appoint an Expert Committee to examine the scheme in the light of the replies received and report to Government by the end of July 1948. The Committee will consist of :—

Chairman

Mr. C. C. Desai, C.I.E., I.C.S.

Members

1. Mr. G. P. Kapadia, B. Com., G.D.A., R.A.
2. Mr. M. S. Krishnaswami, G.D.A., R.A.
3. Mr. S. N. Banerjea, M.A., B.Com., G.D.A., R.A.
4. Mr. S. B. L. Vaish, B. Com., LL.B., G.D.A., R.A.
5. Mr. N. R. Mody, A.C.A., R.A.
6. Mr. K. Santhanam.
7. Mr. A. L. Sahgal, B.A., LL.B., A.C.A.
8. Mr. G. D. Apte, B.A., G.D.A., R.A.

Mr. K. Srinivasan, Secretary, Indian Accountancy Board, will be *ex-officio* Secretary of the Committee.

It will meet at such places as the Chairman may fix.

4. The terms of reference to the Committee are :—

(i) To examine the tentative scheme for an autonomous association of accountants in India in the light of opinions and comments received from Provincial Governments, commercial bodies etc., and to suggest concrete proposals to Governments, for making the profession autonomous, and

(ii) to indicate where necessary amendments to the existing laws, or the terms of separate legislation if necessary.

L448M-of Commerce

Appointment of Accountancy Expert Committee (1948)

"Up to this time I had thought there was no distinction made, but when I was told that it is fraud to allow these people to call themselves Chartered Accountants, then I discovered that there was some distinction in the background to him these people, otherwise, so far as the performance of duties and the discharge of responsibilities go, these people are as fully qualified as the Chartered Accountants, with this difference that Chartered Accountants get higher fees..."

"Sometimes one may require a telescope to distinguish the faces of his own country men sitting opposite to him. I do not quite see what their colour is, what their complexion is, what is in their heart, - I do not know if they have a soul or not. For that I require a telescope, though they have a soul or not. For that I require a telescope, though they are sitting just opposite to me. So it may be necessary to have a microscope for looking at these letters. But, Sir, is there no remedy to be found for this, while these unscrupulous people may put in the letters 'Ind.' in that obscure, illegible manner, is there anything to prevent others from advertising "Non-Ind." In blazing waving lines that may be seen from a distance of 101 miles."

"Sir, we have M.A.'s and LL.B.'s as in Cambridge, but our people do not put 'Ind.' after their degrees. There are mechanical engineers again qualified in England as in India. Are not their titles common? Are we thereby defrauding the employers? This glamour for foreign degrees and diplomas will continue under this hypnotism of foreign rule. We are told that we are suffering from an inferiority complex. I do not mind suffering from an inferiority complex if it goads us on to a superior status, but I do not want superior arrogance if it tends to perpetuate an inferior status."

Sir Cowasji Jehangir:

"There is no crime in any body of professional men making a memorial to Government stating that they desire to have in their motherland the same status, the same position as any one else, be they their own countrymen or not, educated in a foreign country. There is no crime in drawing the attention of Government to their feelings of disappointment, after years of petitioning, at not being allowed to have that status in their own country."

"There were accountants in India before 1925. They audited accounts and nobody challenged their authority to do so; and many of those men are alive today, men who had not passed the examination specified in section 144, and who are still efficiently doing their work as accountants. They are not called registered accountants; they have a registered of their own and they will soon naturally die out. In the same way, the registered accountants say: "You have made us pass an examination; you now call us registered accountants; why do you not put us on the same basis and give us the same status that accountants have in different parts of the Empire?" Is it a crime to aspire to be put in the same position in India as the South African is in South Africa? Is it a crime to desire and petition Government that they should in future give Indian accountants the same position and the same status that a Canadian has in Canada?"

"Because the fact that a man happens to be a chartered accountant or an incorporated accountant signifies nothing to me till I see his work, and I have known cases where chartered accountants have been very poor specimens of their profession, and I have known registered accountants who have been first class professional men in their own work. I have also been informed, - my information may, or may not be accurate, nut it comes from a good source, viz., the men who have been examiners for these registered accountants – that the syllabus which is now laid down for registered accountants is no inferior to the syllabus laid down in England."

"The difference is that an Indian going to England for three or four years naturally is in a different atmosphere to that in his own country, and naturally he has perhaps better opportunities of gaining experience. That is certainly an advantage, and I would be the last to deny the advantage that is gained by an Indian who lives in Europe for two or three years. I do not deny that advantage, but my information is that that is the only difference."

Mr. Mohammad Ali Jinnah:

"But I want to make my position more clear generally. At present, there is nothing at all to prevent any company from appointing an auditor who holds a certificate, whether he be a chartered accountant or a registered accountant. One is as good as the other within the meaning of the statute. Apart from the qualifications, my friend, Sir Cowasji Jehangir, pointed out that there are certain Indian Registered Accountants who are far more efficient and far superior to any chartered accountant. We have got instances in other professions also."

"If an ordinary litigant attaches more importance to me than to my friend, the Leader of the Opposition, and says "Well, Mr. Jinnah is a barrister while my friend, the Leader of the Opposition, is an Advocate", same footing, we have the same rights and the same privileges, and if some misguided person attaches more importance to me because I am a barrister, well it is his misfortune. My friend, the Leader of the Opposition, may be far superior. Therefore, Sir, it really comes down to this. A glamour is attached to Chartered Accountants..."

"Mind you, I stand for Indian talent, I want complete privileges and same rights as those given to anybody else in my country. But let us proceed in some methodical manner. I do hope that the Government will not any longer delay in taking up this matter."

Mr. Bhulabhai J. Desai:

"...if it was competent to the Governor-General in Council to call them "R.A.", they could equally and easily have been called Chartered Accountants, India. It is purely a question of name which is given. It is a same which can be altered at their pleasure, because 'Registered Accountants' is an artificial description...It is within the power of the Governor General in Council within the meaning of section 144 and the rule making powers in that behalf to give any designation they think proper as the Act stands at present. But if the intention is to create by means of a statute an autonomous body of Accountants in India."

"I certainly would prefer it, and though it is competent within the law to do it, yet because of the promised creation of a body of Accountants with an autonomous constitution of their own having the power to grant degrees and give designations, and in particular "Chartered Accountants (India)", we do not think it worthwhile to press this matter." ■

Autonomy of the Profession: Expectations, Challenges and Future*

When our nation got independence, it realised the extensive amount of work to be done for its people, land and culture. When we get to exercise our fundamental rights according to the law of the land, we are also asked to observe certain duties as our responsibility. Leverage always comes with a responsibility. Autonomy granted to the accountancy profession was a similar event. The people who fought for the autonomy had realised it then. The members of the profession and their Institute also realise it today. They have been trying to contribute through their best possible efforts. The present article tries to address the challenges the accounting forefathers had realised and the responses the Institute and the profession has created through their accomplishments.

The creation of the Institute was a very important step in the progress of the profession and it was fortunate that the first Council of the Institute had as its President and Vice President who had rendered out-of-the-ordinary service to the profession and, therefore, commanded unanimous support from the members of the Council, according to Shri C. C. Desai, the then Secretary of the Ministry of Commerce, who had played a key role in the past as head of the Accountancy Expert Committee in bringing the dream of an autonomous institution of accountancy into a reality. The Indian legislature then placed a great responsibility on the Council of *The Institute of Chartered Accountants of India* expecting them to establish standards of professional efficiency and professional integrity. It also expected the Council of the Institute to observe the righteousness with regard to its disciplinary jurisdiction and to maintain a level of professional conduct and standards that would bring glory to both the profession and the country.

The first meeting of the first Council of the Institute was inaugurated by the Minister for Commerce of the Government of India, Shri K. C. Neogy, on August 15, 1949, in New Delhi. He said:

> *"…there was a special significance in that the Council was holding its first meeting on the day of India's independence and it was appropriate that a great and important profession in the country was launching upon a career of autonomy on that day."*

Union Finance Minister Shri C. D. Deshmukh who happened to be the first Indian Governor of the RBI observed at the annual meeting of the Council of the Institute held on August 11, 1951:

> *"…it is the duty of every member of the Institute to ensure that he fulfils the high ideals set before him amidst all the pressures and temptations of the day. I am glad to know…that you are fully alive to your responsibilities. It is only the watchful eyes of the members of your profession which can make any measure that Government may take to curb malpractices in trade and business, really affective."*

*Contributed by the Journal Section of ICAI

Such words coming from a man of principles like Shri Deshmukh spoke volumes about the approval that the profession commanded from the nation and the society in those times. He, however, went on to warn the members of the profession:

"I trust you will not misunderstand me if I utter a word of warning against complacency in this respect. It is essential to be ceaselessly vigilant about this, all the more so because of the greatly enlarged sphere of your activities. The Institute should continue to exercise unceasing vigilance in seeing that its members conform to the traditions and conventions of the profession and that the rules framed by them are observed both in the membership of the Institute, a hallmark of distinction, and in professional circles all over the world. Such a position implies unwearied and unceasing effort on your part."

This was the level of recognition of the profession in those formative days. The Government wished and sought to avail the wisdom and experience of the profession in its committees and commissions.

Expectations & Consequential Challenges

The past-President (1953-54) of the ICAI Shri S. B. L. Vaish had realised the responsibilities and challenges the profession would have, when he made potent observations on the eve of his retirement from the office of the Institute:

"The past sows the seeds of the future. Our present activity will decide our future destiny. Autonomy conferred on the profession has aroused great expectations on the economic front…We are answerable to the posterity."

Excerpts from *History of Accountancy Profession in India*

In the light of the sentiments and beliefs expressed for the profession, the last chapter, i.e. *Behold Thy Future*, of Shri G. P. Kapadia's acclaimed documented history, *History of Accountancy Profession in India*, written in 1972 highlighted the liberal aspects of the profession and accentuated the need of governance in order to reach new heights in serving the society at large. We present you excerpts pertaining to the challenges and scope of the accountancy profession from that chapter, which, after so many years, still has the strong introspective value for all concerned with the profession:

On Expectations

"The profession of accountancy is a service oriented profession and perforce it must keep alive to the changes in the social and economic order and identify itself with the social stream. If this imagination is not shown, there would be a likelihood of its being swept away altogether."

"With the increasing role that the State is called upon to play in the financial, industrial and management of a large number of public institutions and concerns, the question of public accountability has become much more important and it is in this light that the profession should completely re-orient its thinking. The role of profession is not just circumscribed to one entailing the performance of a particular function with a motive of profit, but greater significance should stand attached to the tangible contribution which the profession can make in respect of the vital issue of public accountability and the positive role that the profession can play as an enlightened profession to be service to the Nation."

"In discharging the duties and while performing the various functions, the paramount consideration which should weigh with the members of the profession is that they are not merely performing particular duties to earn emoluments, but that they have to discharge a wider function and their obligation – a moral one – is to function in such a way that they are above suspicion and as members of the learned and an honourable profession they provide service to the community being accountable to the authorities and also to the Legislature of the country which has bestowed autonomy on the profession."

The Indian legislature placed a great responsibility on this Council expecting them to establish standards of professional efficiency and professional integrity. It also expected the Council to observe the righteousness with regard to its disciplinary jurisdiction and to maintain a level of professional conduct and standards that would bring glory to both the profession and the country..

"The members of the profession should show increasing involvement in civic affairs, but in doing this, the paramount consideration should be the preservation and protection of the identity of the profession as a profession. The area of civic affairs can embrace diverse fields and can possibly include directorships in public companies, participation in the management and affairs of chambers of commerce and other associations and participation and involvement into the field of social service."

"The profession has to be very selective about the persons who enter the fold of the Institute, because it is the quality which should count against quantity. The effort should be geared towards providing better type of services."

"Considerable importance is now being attached to the question of specialisation in respect of various facets and functions. It is because of this factor that possibly the scheme of integration could not materialise…Despite the fact that integration has not taken place, the effort of the Council of the Institute should be to have a strong base for the general knowledge and to provide for specialised training in particular facets and subjects."

On Problems and Challenges

"Research is another facet which so far has not received that attention which it should have… It is in this field that the profession can reflect its character much better and it is high time that a very active consideration was given to this matter by the Council. The urgency and immediate need is about formulating correct Accountancy principles adaptable under the conditions prevailing in the country."

"In the performance of any type of duty, the Chartered Accountant would have to think of…the general interest that he is expected to serve in his relation to society. He must be above reproach, he must reflect the highest ethics of the profession, he must possess the expert knowledge which can throw light on important problems and issues and he can by his accomplishment and behaviour assume his rightful place as one who can give and provide the necessary guidance in respect of all matters relating to his specialised field of knowledge."

"The Companies Act has been revised on a number of occasions to provide for stiffer checks on management. For the proper discharge of duties by way of a check over management, it may be necessary to have legislation so moulded that for discharging particular duties, the professional men are given statutory rights to question the management at any level to compel a disclosure of all relevant material found necessary."

"…professional ethics is not a matter solely of legislation. Regulation of behaviour by a process of regimentation through statutes cannot always ensure the desired result. It has, by and large, to be achieved through a process of law and regimentation. At the same time, the profession should always have self-regulation spelt out by a written code so that such self-regulation stands fully revealed."

"It is possible that the profession may pass through periods of crises and it is the behavious of the members at the time of crises that can ultimately reflect the real character of the profession and the Institute. The question of opportunities being provided for the younger members is certainly important, but here, again, the theme about concentration of work in particular hands should not be overplayed."

"One cannot forget the fact that the profession's progress, stability and strength are to an extent due to the tangible and significant contributions made by a number of these firms. At the same time, every one must see the writing on the wall and take

full cognisance of the aspirations of the younger members. It would not be difficult for the Council to evolve a satisfactory formula which can provide a protection to all concerned in the regulation to be attempted."

""The effort of everyone wishing well by the profession should be to provide more and more opportunities to the younger members at the same time to achieve a de-concentration where necessary over a period of time and in a phased manner."

"…one must remember that every member to whatever sector he belongs has a place in the set-up o the Institute and each member must have a feeling of 'belonging'."

"Self-regulation should stand evolved on a voluntary basis by the members themselves and there should be no compulsion imposed by the Council, because with such compulsion, regulation would cease to be 'self-regulation'. The matter has extended to such dimensions and has assumed such significance that it has become the responsibility of the profession as while and the Council would have to keep this aspect foremost in their mind."

"The profession has been able to attain the high status within two decades…because of the fact that the theme emanating right from the start is one of complete unity and it is unity alone which has given strength to the profession and which will continue to provide further strength to it in the future. It is unity again which can provide a sheet anchor and a shield against outside interference."

"The Institute should continue to exercise unceasing vigilance in seeing that its members conform to the traditions and conventions of the profession and that the rules framed by them are observed both in the membership of the Institute, a hallmark of distinction, and in professional circles all over the world."

"The future holds out immense possibilities and sends out a clarion call and a challenge."

Accomplishments of the Profession: A Response

Though, during more than six decades of its existence, the ICAI has achieved recognition as a premier accounting body both nationally as well as internationally for its contribution in the fields of education, professional development, maintenance of high accounting, auditing and ethical standards. It has now become the second largest accounting body of the world. In this context, it will be a noteworthy exercise to measure up the strength of its initiatives and accomplishments as its response to the expectations and challenges expressed by the leaders and forefathers of accountancy profession. It will be self-contemplation for the profession to observe how it has made out over those decades after the opinions concerning the future of accountancy in India were expressed.

The autonomy given to the Institute was further respected and strengthened by the Government of India through introduction of various amendments to the Companies Act, 1956, and the Chartered Accountants Act 1949. Precisely speaking, while responding to 'expectations' from the accountancy profession, the issuance of Manufacturing and Other Companies (Auditor's Report) Order (MAOCARO) in 1975 by the Central Government in consultation with the Institute under the Section 227(4A) of the Companies Act, 1956 is a classic example aiming to expand the role of auditor's responsibilities was another evidence of the trust the Government had in the Institute and the professionals it produced. This was issued also to enhance the useful work done by chartered accountants and also bridge the expectation gap between the society and the accountancy profession. The Institute suggested to the Government that scope of reporting requirements should be extended to other areas like delay in payment of Government dues and compliance with accounting standards issued by the Institute and report on significant departures and their effect on financial statements. The

The role of profession is not just circumscribed to one entailing the performance of a particular function with a motive of profit, but greater significance should stand attached to the tangible contribution which the profession can make in respect of the vital issue of public accountability and the positive role that the profession can play as an enlightened profession to be service to the Nation.

Central Government requested the Institute to submit its observations and suggestions in the matter and then based on the matter submitted by the Institute, the Government issued the Manufacturing and Other Companies (Auditor's Report) Order, 1988 (MAOCARO, 1988) superseding the earlier order, which enhanced the auditor's reporting responsibilities considerably as compared to the earlier Order. The Council of the Institute considered the revised statement on MAOCARO, 1988 submitted by the Audit Practices Committee in 1989 and a revised Statement was issued. As a result major changes were brought about in the responsibilities of the auditors in 2003 with the introduction of the Companies (Auditor's Report) Order, 2003 (CARO), which rationalized various reporting requirements and added a few more on which the auditors were required to make specific report to bring in better financial discipline in the corporate sector. This was further amended and rationalized by the Department of Company Affairs through Companies (Auditor's Report) Order, 2004. All these instances prove the increasing consolidation and credibility of the Institute of accountancy and the profession vis-à-vis the Government's trust on them. They also confirmed the increasing scope of duties of an auditor. Audit of Reserve Bank of India, State Bank of India, Export-Import Bank of India, National Bank for Agriculture and Rural Development, Regional Rural Banks, Life Insurance Corporations, etc., is done by chartered accountants. A large number of public sector companies are registered as companies under the Companies Act, 1956 where Section 619 lays down special provisions regarding audit of accounts of government companies and presentation of audit report to the legislature. Accordingly, audit of these

companies are to be done by chartered accountants, which may be followed by a supplementary or test audit by the Comptroller & Auditor General (C&AG). In 1971, C&AG of India, Shri S. Ranganathan had said:

> *'…I have been intrigued why private and public enterprises should not, as a rule, have persons possessing knowledge, experience and qualification in tax laws, such as Chartered Accountants to look after all their tax affairs.'*

The provision relating to the formation of Audit Committee under the Section 292A of the Companies Act, 1956 since 2000 is, in fact, quite significant in recognising the expertise of chartered accountants as independent financial literate experts evaluating the efficiency with which enterprises are run. To ensure qualitative entry to the profession, the commitment is reflected in periodically evaluating education and training scheme, updating the syllabus regularly to match the current economic environment and maintain highest standards to assess professional competence. The Institute has not lagged behind to have the specialisation of chartered accountants in the areas like Insurance and Risk Management, Valuation, Finance, Forensic Auditing, Corporate Governance, Forex and Treasury Management, Derivatives, Post-Qualification course on WTO and Trade Laws, etc.. The Institute has also been rendering various specialised courses in IT such as post-qualification courses in Information Systems Audit, Certificate Course in Enterprise Risk Management and other courses on computer-assisted Audit Techniques. All these developments show that the Institute has been able to provide specialised training in particular subject.

As far as formulation of accounting standards is concerned, the Institute has been front runner in this area. In fact, the Section 211(3C) of the Companies Act, 1956 recognised the Institute as a primary body for formulation of the standards. As described elsewhere in the issue, the Institute has already been recognised as the nodal agency for imparting training in IFRS to all entities in the country.

The Institute has been organising a series of programmes for maintaining and enhancing the knowledge and skills of chartered accountants. In fact, the Indian accountancy profession has made continuing professional education (CPE) mandatory for all members including members in industry. The distinction has already been made between structured learning and unstructured learning. Today, the members are required to complete at least 90 CPE credit hours in each role, the three years period of which 66 CPE credit hours should be of structured planning. Further, we are also required to complete 20 CPT hours of structured learning each year. The Code of Ethics formulated by the Institute placed down specific rules and regulations which

> Chartered Accountant would have to think of...the general interest that he is expected to serve in his relation to society. He must be above reproach, he must reflect the highest ethics of the profession, he must possess the expert knowledge which can throw light on important problems and issues and he can by his accomplishment and behaviour assume his rightful place as one who can give and provide the necessary guidance in respect of all matters relating to his specialized field of knowledge.

members are required to complete in their day to day work.

As far as various opportunities for members are concerned, there has been a tremendous growth in new areas including services of chartered accountants being available by C&AG for various social schemes, public expenditure, Indirect Taxes and other management consultancy services. While the Institute has not been directly ensuring the equitable distribution of work of chartered accountants, it has taken certain steps to overcome any extreme situation. Ceiling number of audit introduced by the Section 224(1)(b) under the Companies Act, 1956 in 1974 was relaxed later excluding the audit of private limited companies. However, the Council of the Institute fixed the limit at 30 including the audit of private limited companies. Similarly, it is also laid down the restriction of 40 tax audits to be down by one practicing chartered accountant.

The Institute has been performing a pioneering role in assisting the Government in the formulation of taxation laws and, thereby, bringing in fiscal discipline in the country. It has been recognised by both Government and public at large as an authority in all departments of the direct and indirect tax laws. Through its Direct Taxes Committee and Indirect Taxes Committee, it conducts workshops and submits to the Government Pre-Budget and Post-Budget Memorandums relating to the Direct and Indirect Taxes. It also assists, advises and coordinates with the Government

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> To continue to retain the public trust is a fundamental requirement of the accountancy profession. Accordingly, the education and training the Institute imparts has been empowering all its qualified chartered accountants and enabling them to face the challenges and expectations of a global and rapidly-changing industry.

of India in the functioning of various committees formed by the Central Board of Excise and Customs (CBEC) and Central Board of Direct Taxes (CBDT) on tax matters from time to time.

The Chartered Accountants (Amendment) Act, 2006 gave further autonomy to the Institute in the regulation of the chartered accountancy course while giving them freedom to set the syllabus for the course. This was another milestone for the Institute in the context of winning the trust of the Government. Such is the level of trust in the functional competence of the ICAI that the Institute has been entrusted as a primary body with the power of formulating the accounting/auditing and ethical standards. Accounting Standards issued by the ICAI have legal recognition through the Companies Act, 1956, whereby all companies are required to comply with the Accounting Standards and statutory auditors of all companies are required to report whether the Accounting Standards have been complied with. Also, the Insurance Regulatory and Development Authority (IRDA) (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations, 2000 requires insurance companies to follow the Accounting Standards issued by the ICAI. The Securities and Exchange Board of India (SEBI) and the Reserve Bank of India also require compliance with the Accounting Standards issued by the ICAI from time to time. Continuing with its commitment to the nation, the Institute has constituted Financial Reporting Review Board (FRRB) to review the compliance, inter alia, with the Accounting Standards and Auditing and Assurance Standards as issued by it.

It is notable that the National Advisory Committee on Accounting Standards (NACAS) was constituted under Section 210A as referred to under Section 211 (3C) to advise the Central Government on formulation and laying down of the accounting standards for adoption by companies or class of companies. It is of further significance to note that on the recommendation of the NACAS, the Ministry of Company Affairs issued a Notification in 2006, whereby it prescribed Accounting Standards 1 to 7 and 9 to 29, as recommended by the Institute, which were included in the said Notification.

To continue to retain the public trust is a fundamental requirement of the accountancy profession. Accordingly, the education and training the Institute imparts has been empowering all its qualified chartered accountants and enabling them to face the challenges and expectations of a global and rapidly-changing industry. It has always identified in a timely fashion the contemporary requirements of its students and introduced compulsory courses like General Management and Communication Skills (GMCS) and a compulsory computer training of 250 hours for all students of its C.A course. The Institute ensures that its candidates acquire an appropriate education and training in the context of the dynamic economic environment. Despite its image as a tough course, the chartered accountancy profession has a strong membership of approximately two lakh in number.

Environment is another urgent concern before the Institute and the Institute has taken it seriously. It has its own *Go Green* initiative – working its measures for and with the environment. It is deeply concerned with such issues. It has been trying hard to find out ways and to learn to know how to live within its ecological limits in concurrence with economic prosperity. Its environment-friendly initiative *Planet Alert* is for the world to know that it has been playing an active role through environmental accounting and auditing in the industrial sector of the nation.

Challenges will Remain

Several new concerns have emerged over the years with time in the wake of the new economic development and other associated developments and they have created new challenges not only before most of the professions but before the humanity as a whole. Worlds other than the economy have also become important and affected the accountancy profession too. The Institute has taken a note to that – a growing urgent responsibility towards the society and the nation it exists in and, therefore, it will not ignore having *ethics* among the fundamentals of its profession.

However, despite all the enterprising steps and initiatives the Institute has taken to enhance the scope of its members and the profession, to come up to the expectation of the nation and to help and to be a partner in nation building, it understands it still has a long way to go from where it is at present. It recognises its share among the challenges our nation has today before it. It knows the expectations our nation and our Government have from it. Though challenges continue to grow with time, the Institute has enhanced its stature and will continue doing so accordingly in the best interests of the survival of societies, nations and humanity. ■

Tracing the Origin of Accountancy*

It is impossible to separate accountancy as a discipline from social, economic and historical contexts and conceptualise it as a set of neutral and technical tools. The challenges already existed in form of primary sources, material lacunae and translation. Primary sources are scattered and widely dispersed. We have to access these sources through the expertise of the ancient historians. Then there are gaps in them, as only few have survived and a fewer have with intactness. The complexity of research becomes more complex, as surviving resources are damaged too in many cases. Then, we are forced to make assumptions. Therefore it is not possible to make a choice from the list of those resources. We are then left with the only choice to study all resources that are available. Sources like Ṛgveda (circa 1500 BC), Vedic Saṃhitās (1500-1000 BC), Upniṣadas (1000-500 BC) Manusmṛti (200 BC-200 AD), Pāṇinī (5th century BC), Vālmīki Rāmāyaṇa (400-300 BC), Arthaśāstra (4th century BC), Jātakas (2nd century BC) and Qur'ān (633-653 AD) provide significant insight into the accounting practices in those days and, therefore, help in tracing the process of their evolution in ancient India.

Accounts of Distribution *Courtesy: British Museum*

Tokens: Beginning of Accounting

Small geometric clay objects (cylinders, cones, spheres, etc.) or tokens were found all over the near East from about 8000 BC as precursors of both mathematics and writing, and part and parcel of the Neolithic phenomenon. In Sumerian civilization, in around circa 3500 BC, a collection of tokens could represent a promised transaction. It required secure methods of keeping groups of tokens. The Mesopotamians devised two main systems of storage. The first involved piercing the tokens with small holes, stringing them on a piece of cord and attaching the ends of the string to a solid lump of clay, called a bulla, and the second method was storing tokens inside a hollow clay envelope, called *bulla envelope,* marked by a seal.

Tokens were impressed on the envelope to acknowledge their presence inside it. The total sum of tokens inside the envelope or on a string represented the equity that a creditor lent to a debtor, which was similar to a superaccount or a *balance sheet.* Later tokens were impressed on a solid lump or tablet of clay and the tablets were then kept as records. Within a couple of hundred years, this was used for complex tokens. This system was superseded around 3500-3200 BC by the counting tablets of the *sexagesimal,* i.e. relating to sixtieths, giving birth to the actual recording in writing and counting system, and the beginning of pictographic writing around 3300-3200 BC. This system, though less secure, afforded greater ease of use and storage. It was the beginning of a numeration system. Accounting was the greatest and, probably, the only inspiration leading to the birth of writing.

I Ancient India

India through its 9000 years of civilizations has contributed to the evolution of accounting system in many ways. Ever since Mohen-jo-daro and Harappa have been discovered, more than 500 seals have been exposed with fine representations of animal figures and not-yet-deciphered pictorial writings. Trade between Mesopotamia (modern Iraq) and Harappa is evident with the finding of the seals.

*Contributed by the Journal Section of ICAI

Chitragupta: Accountant from Mythology

According to Hindu mythology, when life forms die, their souls first go to Yama, the God of Death, who decides on the fate of the souls with the help of ten judges. Chitragupta reads out the account of their deeds, so that Yama could allocate next life or grant mokṣa, i.e. freedom from the cycle of birth and death, to them. Chitragupta is believed to keep meticulous, complete and accurate records of the actions of all life forms from birth to death.

First Coins

Niṣka is the earliest reference about coins, as referred to in Ṛgveda (circa 1500 BC). Silver niṣka has also been mentioned in Ṛgveda. Coins were introduced and used in trade in India, China and Asia-Minor in 6th century BC. First coins were issued by the Greek living in Lydia (modern western Turkey). These were made up of electrum (an alloy of gold and silver) and minted by King Alyattes known as the originator of coinage system.

The earliest coin (circa 6th century BC) of Indian subcontinent was found near Mathura. It was rectangular having seven punch marks and no inscriptions. Being an indigenous product of India, it was different from their contemporaries in Greece or western Turkey.

World's First Coin *Courtesy: British Museum*

Earliest References

Taxation was theoretically justified as a return for the protection granted by the king. Manu was assured by his prospective subject that they would give Manu a share of their crops and herds as cost of protection. Before the dawn of Mauryan times, tax-collectors were appointed over groups of villages. The basic tax used to be that on land, usually called bhāg (share), paid usually in kind. Tax was also levied on shops and necessary industrial equipments like looms, potter's wheels and oil presses.

According to the Dharmasūtras (Manuals of Hindu Conduct), women, children, students, learned brāhmaṇas and ascetics should not be taxed in any form. Jātakas refer to the collection of tax by kings. Nāradasmṛti has references to lending of money at interest, sureties, pledges, documents, witnesses, oaths, and also detailed provision on partnership. Pāṇinī (4th-5th century BC), the eminent grammarian from Takṣaṣilā, has mentioned *Śatamāna, Niṣkas, sana, vimastikā,* and *kārṣāpaṇa* that were used in financial transactions in his Aṣṭādhyāyī. Vālmīki (circa 400 BC), the poet harbinger in Saṃskṛt literature, in his Rāmāyaṇa referred to *āya* (income), *vyaya* (expenditure) and koṣa (treasure). Mahābhārata by Veda Vyāsa also has references to accounts.

From Kingdoms of the South

The kingdoms of the South like Rāṣṭrakūṭas, Cholas, Cheras, Pallavas and Paṇḍyās had great maritime trade with the help of natural harbours. There existed *Temple Economy*, as temples coordinated and carried out all the functions of economy including grants of land and loans. All records of royal treasury were kept on copper plates and stones. Cholas had a large land revenue department for maintenance of accounts. The plates of Bobbili of Chandavarman, Ningondi of Prabhanjana Varma, and Talcher of Kulastambha have references about the registration of the amount payable for the village.

From *Arthaśāstra* and Other Treatises

In Arthaśāstra, written around 4th century BC by Viṣṇugupta, also known as Kauṭilya or Chāṇakya, three chapters provide an encompassing account on accounting, and deal with some vital concepts in accounting including expenditure and profit, checks and balances, and audit practices. It was mainly an account of politics, economics and finance in India from a king's perspective. He was also

Arthaśāstra identifies revenue centres for accounting and accounting heads. Revenue has been classified into three categories: recurring current revenue, non-recurring past revenue received and another non-recurring revenue called accidental revenue.

from Taksaśilā like Panini and Charak.. It has fifteen parts, i.e. books, with one hundred and fifty chapters.

Arthaśāstra identifies revenue centres for accounting and accounting heads. Revenue has been classified into three categories: recurring current revenue, non-recurring past revenue received and another non-recurring revenue called accidental revenue. The testimony of Megasthenese corroborated by the Arthaśāstra shows that prices were regulated by market officials during Mauryan times. Merchants paid small road tolls. Essential goods such as grains, oil and cheap textiles were taxed.

From Manusmṛti

Manusmṛti, written during 200 BC to 200 AD, mentions taxes that were payable to the king. Traders were supposed to calculate their taxes after considering costs, sales, distance, i.e. freight, cost of protection and procurement, and sustenance charges in connection with the deals. According to the *varṇa* system, vaiśyas were directed to get involved in agriculture, trade and banking in society as their special means of livelihood, i.e. *vṛttis*, an essential technical training that was for their usefulness in society. They controlled many of the economic activities of society. They were the capitalist and moneyed member of society, and were the backbone of the economic organism of society. They were required to nourish people of other sections. They possessed high positions among the counsels of the king.

Qur'ān and the Islamic tradition

Islām came to India soon after its birth. It prompted accounting practices with the imposition of *zakāt* (poor-dues) as one of its five pillars in 624 AD. It promoted the practice of accounting for calculating and paying *zakāt* as the purification of earnings. It is an obligatory payment by all Muslims. House and personal transportation were exempted from *zakāt.* It is not mandatory on harvest if the total did not reach a minimum limit. Surah II, verse 43 of Qur'ān says: Establish, worship, pay the poor-due, and bow your heads with those who bow.

In 976 AD, Al-Khawarismy for the first time documented these systems and used *muhasabah* for the function of accounting. The person responsible for this function is *muhaseb* (accountant). Another scholar Al-Mazenderany, in his book Risālah Falakujyah Kitābus Siyākat published in 1363 AD, documented accounting practices of the Muslim society. He outlines seven accounting systems having income-statement orientation suited to specific governmental departments.

Arthasāśtra and Islāmic Accountancy

Both Arthaśāstra and Risālah refer to accounting period. Arthaśāstra identifies a year, a month, a fortnight and a day as accounting periods facilitating intra-year comparisons. The beginning of the year is the first day of *Śrāwaṇa* month of the Hindu calendar. *Risālah* calls this 12-month period as *al-hawl*, as *zakāt* was payable only on assets held for more than a period of an *al-hawl.*

Tax Receipt (124 BC) *Courtesy: Schøyen Collection*

Indian Mathematician Giants

Indians tradition of knowledge has carved a niche in the field of mathematics, with the contributions from mathematicians like Āryabhaṭṭa, Brahmagupta, Mahāvira Bhāskarāchārya, Nārāyaṇa the first, Gaṇesa and Nārāyaṇa the second.

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"Bankers were accepted as guarantors for the character of candidates for employment. Sarrāfs or saroffs acted as bankers to make remittances of money. They monopolized all monetary transactions and issued hunḍī (bill of exchange) and organized bīmā (insurance of goods)."

Āryabhaṭṭa (476–550 AD), the founder of modern mathematics, discovered the value of π (pi) and proved that it is irrational in his *Āryabhaṭīya.* The irrationality of π was quite a sophisticated finding for that era. Brahmagupta (598–670 AD) gave the solution of the general linear equation in his Brahmasphuṭasiddhāñta. For the first time, he made use of the most priced concept in mathematics, 0 (zero). Before him, zero was treated simply as a placeholder digit, and it was simply a symbol denoting lack of quantity for Ptolemy. Such an important, landmark and innovative play of digits contribute to the refinement of the accounting practices.

II Medieval India
From Delhi Sultanate and Mughal Empire

Delhi Sultanate introduced administration based on Islam in sync with local beliefs and customs in 12th century AD, which improved further with the Mughals. There were no organized merchant guilds, but leaders of Muslim merchants called *maliku't-tujjār* (merchant princes) were quite influential. Bankers were accepted as guarantors for the character of candidates for employment. *Sarrāfs* or saroffs acted as bankers to make remittances of money. They monopolized all monetary transactions and issued *hunḍī* (bill of exchange) and organized *bīmā* (insurance of goods).

By the end of Akbar's reign, a special syllabus had been devised for accountants. Books on *siyāq* (accountancy) were also written. The personal record of Jahāngīr (1569-1627), Jahāngīrnāmā, provides references of *tamghā* (a transit/custom duty).

Wazīr and Dīwān: Key Influencers

According to *Ādābu'l-harb wā'ś Śujā'a,* a text dedicated to Iltutmiś, a government could not flourish without a *wazīr* (vizier) and his department, *dīwān-i-wizārat,* dealing with income and expenditure. *Dīwān* was assisted by *muśarif-i-mamālik* (to supervise the collection of revenues and to audit local accounts) and *mustawfi-i-mamālik* (to control state expenditure). In Śer Śāh Sūrī's reign, *dīwān-i-wizārat* looked after income, tax system and expenditure of the state. Akbar's *dīwān* Rājā Todar Mal, *Jahāñgīr's dīwān* I'timādu'd-Dawlā and Śāhjahān's diwāns Afzal Khāñ were all very learned and powerful. Śāntidās Jawharī, a leading Jain jeweller and banker, also had great influence at Śāhjahāñ's court.

During Balban's reign, to maintain revenue accounts principal revenue administrators (sāhib-*i-dīwāns*) called *khwājās* were appointed. Alā'u'd-Dīn Khaljī reformed agrarian system and market, and introduced gharāi (house tax) and cherāi (grazing or cattle tax) from the cultivators.

Rajasthan and Bahi-Khata System

Rajasthan was an important trade centre due to trade routes to Gujarat, Surat, Kabul, Lahore, Ajmer, etc. It had a developed accountancy due to give-and-take credit system of the mārwāṛīs. The business records of *mārwāṛī* houses provide information on record-keeping and bookkeeping.

Indian system of bookkeeping, called *bahī-khātā,* was far ahead in sophistication of its European counterparts. It recorded the two aspects of each event. Occidental historians referred to *bahī-khātā* as single-entry bookkeeping, and but could not explain any further. Also known as mahājanī or *deshī-nāmā* system, it is still used by traditional traders of South Asia

Mughal Gold Coin *Courtesy: British Museum* including Andhra Pradesh, Bihar, Gujarat, Jharkhand, Rajasthan, Uttar Pradesh, West Bengal, and Sindh province of Pakistan. It is simple in operation and actually a double-entry system for *vāstavik* (real), *avāstavik* (nominal) and *vyaktigat* (personal) accounts. Its motto is: first write then give. This *bahī-khātā* based on double-entry system is being used for thousands of years in India and oriental scholars support this viewpoint. *Talpat* or *ānkaṛā-bahī* (trial balance) is prepared to test the arithmetical accuracy of the account books. The compilation of *pakkā chiṭṭhā* (balance sheet) is the itemised list of assets, liabilities, and proprietorship of a business at a given date. It marks the end of the periodic accounting process.

Luca Pacioli: A Friar and Mathematician from Italy

Charge-discharge system of accounting was prevalent in European governments during 13th to 15th century, while Indians were using the bahī-khata system. Luca Pacioli revolutionised accounting methods of the western accountants through his treatise *Summa de Arithmetica, Geometria, Proportioni et Proportionalita* (Everything about Arithmetic, Geometry, and Proportions) published in 1494, which contained 36 short chapters on double-entry bookkeeping, entitled *De Computis et Scripturis* (Of Reckonings and Writings). It served as the only textbook on accounting for more than a century ahead. He described the use of journals and ledgers, and warned that a person should not go to sleep at night until the debits equalled the credits. Although Benedetto Cotrugli Raugeo had already written an account of double-entry system of bookkeeping, *Della Mercatura et del Mercante Perfetto* (Of Trading and the Perfect Trader), much before Pacioli in 1458, but it got published only in 1573.

While Luca is regarded as the Father of Accounting, he admittedly only codified and described the system that was in vogue in Venice. The noted orientalist Alexander Hamilton F. R. S. also noted in 1798: '...the *Baniās* of India have been from time immemorial, in possession of the method of book-keeping by double entry, and that Venice was the emporium of Indian commerce at the time at which Friar Luca's treatise appeared.' (as quoted in *Studies in the History of Accounting* by B.S. Yamey in 1956)

The language used in *bahīs is Muṛiā,* also known as *Sarāfi* or *Mahājanī.* Since it can not be easily read and understood, it gave the *bahīs* a semblance of secrecy.

Advent of Europeans

Early in 16th century the Portuguese founded the first European trading stations and settlements. Portuguese naval dominance gave them sovereignty over the sea. Portuguese fleet of warships prevented any violation of *cartaz* (passes for safe conduct) system and kept the local coastal power under control. During 17th century, number of European factories increased in India. Changes in economic relations among classes promoted the use of writing, accountancy and the land holders knew the importance of the village accounts books. State revenue managers drew on commercial techniques developed by Hindu and Jain merchants. The state officials required more standardized presentation of commercial books for adjudication in which royal justice was involved.

In 1513, the Portuguese were allowed to establish a fort and a factory at Calicut. Their relations with the Mughals became estranged after the death of Akbar due to the Mughal Attack on Deccan States and the arrival of English Ambassador Captain Hawkins in 1608 on a diplomatic mission to get trade facility in Mughal lands and ports. The English were received with great honour and respect. The acquisition of Bombay by the English in 17th century contributed greatly to the English commercial status. Sir Thomas Roe was accepted as the English ambassador to the Court of Jahāñgīr. The earliest legislation in India relating to companies was the Act of 1857 with the introduction of European companies to the Indian trade.

Auditing Practices

Audit is the most significant aspect of the accountant's profile. It is a process to assess the credibility in the financial statements of a company.

Before 1500 AD, nearly all accounting was concerned with accounting for the activities of government. The objective was to detect fraud and to minimize the erroneous recording of transactions. The industrial revolution (1750-1850 AD) changed the regime of management from owners to professional managers that led to a demand of independent auditors during 1850-1905 AD. Thereafter the concept of independent auditor's report emerged. During 1905-1930 AD, audit objectives changed to the reporting on the 'actual' financial condition with a considerable use of testing. During 1933-1940 AD, audit objectives got reflected in the wording of the standard auditor's report. By 1940s, testing became the rule and detailed checking the exception. Primary objectives of an audit became the expressions of opinion on financial statements.

Writing of Accounts *Courtesy: British Museum*

> In its (Accountancy Expert Committee) final meeting held on June 9-11, 1948, it was decided that the special Act would be preferably called the Chartered Accountants Act. In its report on July 4, 1948, it said that accountants in India would be called Chartered Accountants.

The Joint Stock Companies Act, 1856, revised the system of registration. Its aim was to increase public confidence in the honesty of business. Non-mandatory balance sheet format contained in this Act continued to be used till the Indian Companies Act, 1882, which underwent amendments in the subsequent years by the Companies Act, 1867, the Joint Stock Companies Arrangement Act, 1870 and the Companies Act, 1877.

III Modern India

Evolution of Companies Act in India

The Governor and the Company of Merchants of London trading into the East Indes, popularly known as East India Company, was granted the Royal Charter by Elizabeth I, on December 31, 1600. After a rival English company challenged its monopoly in the late 17th century, the two companies were merged in 1708 to form the United Company of Merchants of England Trading to the East Indies, commonly styled the Honourable East India Company (HEIC). The Company was colloquially referred to as John Company and in India as Company Bahadur. The Company traded mainly in cotton, silk, indigo dye, saltpeter, tea, and opium.

Company rule in India effectively began in 1757 after the Battle of Plassey. Under the Government of India Act 1858, the British Crown assumed the direct administration of India. The Company was finally dissolved on January 1, 1874, as a result of the East India Stock Dividend Redemption Act. The Crown assumed all governmental responsibilities.

The Joint Stock Companies Act, 1844, was an Act of the Parliament of the United Kingdom that expanded access to the incorporation of joint-stock companies in the UK. The industrial revolution and the rise of capitalism accelerated further developments in accountancy in 19th and 20th century. Aggregation of capital and labour led to dissatisfaction with some aspects of merchant double-entry bookkeeping. The 1844 Act was amended in 1847 and replaced in 1856 by an act that required companies to be registered the Act. Separation of ownership and control

> Members in the first informal meeting (of the Indian Accountancy Board) decided to call the registered accountants by Registered Public Accountants (India). They also decided that there would be two examinations: First and Final examinations. Rai Sahib Radheshiam Wahi suggested that students having the degree of Bachelor of Commerce would be exempted from appearing at the first examinations.

was first established in the UK in the middle of 19th century by way of Joint Stock Companies Act and Limited Liability Act leading to the development of managerial accounting and financial accounting. The Joint Stock Companies Act, 1856, revised the system of registration. Its aim was to increase public confidence in the honesty of business. Non-mandatory balance sheet format contained in this Act continued to be used till the Indian Companies Act, 1882, which underwent amendments in the subsequent years by the Companies Act, 1867, the Joint Stock Companies Arrangement Act, 1870 and the Companies Act, 1877. For the first time, the accounts to be maintained by the directors were indicated.

Up to 1913, any respectable person could be appointed as an auditor of a joint stock company. The Indian Companies Act, 1913, revised the Indian Law on the subject of joint stock companies and defined the format of a balance sheet. Audit was made compulsory and auditing profession got statutory recognition. Section 131(2) of the Act required balance sheets to be audited and auditor's reports to be attached.

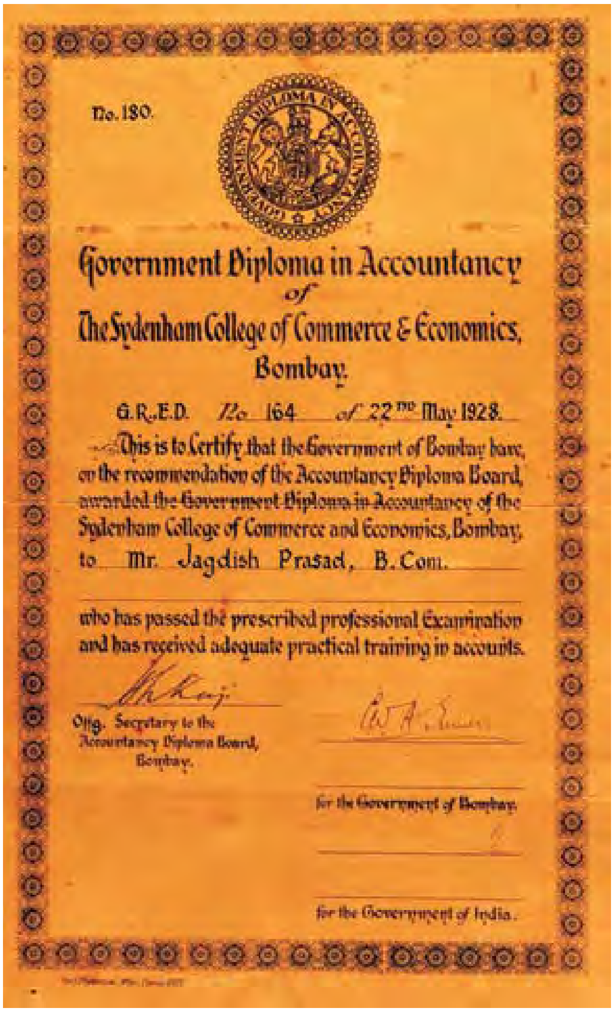
In 1922, the Government of Bombay worked out a scheme of training prepared by Shri K. S. Aiyar, founder-principal of Sydenham College of Commerce & Economics, for entry into an accountant's profession on the recommendations of the Accountancy Diploma Board. It comprised of Government Diploma in Accountancy (GDA) and an articleship of three years under an approved accountant in practice. This scheme was approved by the Government of India, which also approved the B.Com. degree with accounting and auditing as special papers of the Sydenham College as Qualifying Examination. The first GDA and B.Com. candidates, who qualified for the Unrestricted Certificate, were Shri P. N. S. Aiyar and Shri L. S. Mathrubhutham respectively. Shri K. S. Aiyar, also regarded as the pioneer of commercial education in the southern India, is also credited with securing the permission from London in 1905 that accountants could serve their apprenticeship in India only instead of necessarily in England. The first of such apprenticeship in India was served by Shri Sorab S. Engineer. He also happened to be the proclaimed guru of Shri G. P. Kapadia, the first President of The Institute of Chartered Accountants of India. Amongst the oldest Indian qualified accountants, Shri Shapurji Bomanji Billimoria of M/s S. B. Billimoria & Co. deserves a mention. Shri A. E. Cama was the first Indian member of the Institute of Chartered Accountants in England and Wales, who served the Gwalior state first as Accountant-General and then as Finance Minister. Mr. Turner Green of M/s A. F. Ferguson & Co. and Shri Billimoria became the first president and vice-president respectively of the Society of Professional Accountants in 1910.

In 1930, the Government of India exercised control over the members in practice by maintaining a register of accountants. The words "Governor General in Council" were substituted for the words "Local Governments". The Indian Companies (Amendment) Act, 1930, made provision for the constitution of an Indian Accountancy Board. This Act also laid down the functions of the Board.

Indian Accountancy Board

The prospective members of the Board, under the President J. A. Woodhead, went for its first informal meeting on May 12, 1931. Shri M. L. Tannan, the Head of Sydenham College of Commerce & Economics, Bombay, assisted the Government in preparing the draft Rules of the Indian Accountancy Board.

Members in its first informal meeting decided to call the registered accountants by Registered Public Accountants (India). They also decided that there would be two examinations: First and Final examinations. Rai Sahib Radheshiam Wahi suggested that students having the degree of Bachelor of Commerce would be exempted from appearing at the first examinations. The subjects for First examination decided were Book-keeping, Accountancy, Mercantile Law, Elements of Economics and General Commercial Knowledge. For the Final Examination, subjects decided were Advanced Accounting, Special Classes of Accounts, Costing, Auditing, Mercantile Law, Banking Law and Practice and one of the optional subjects: Elements of Public Finance and Statistics, Business Methods, Organization and Finance, and Currency, Banking and Foreign Exchange.



No. 180.

Government Diploma in Accountancy
of
The Sydenham College of Commerce & Economics,
Bombay.

G.R.E.D. No 164 of 22nd May 1928.

This is to Certify that the Government of Bombay have, on the recommendation of the Accountancy Diploma Board, awarded the Government Diploma in Accountancy of the Sydenham College of Commerce and Economics, Bombay, to Mr. Jagdish Prasad, B.Com.

who has passed the prescribed professional Examination and has received adequate practical training in accounts.

Offg. Secretary to the Accountancy Diploma Board, Bombay.

for the Government of Bombay.

for the Government of India.

A GDA Certificate (1928)

Among the members of the Indian Accountancy Board, four each were from Bombay and Bengal, two each were from Madras, UP and Punjab, and one each was from CP and Burma. Indian Accountancy Board was set up in 1932, with Shri M.L. Tannan as the Secretary and Mr. J. C. B. Drake as the President. First meeting of the Indian Accountancy Board was held on December 6, 1932. Sir Bernard J. Whitby, a partner in the firm of M/s A. F. Ferguson & Co. and an associate of Mr. Turner Green, has played an effective role in the Indian Accountancy Board.

In its 16th meeting held on April 9, 1948, an Expert Committee was proposed to examine the tentative scheme for an autonomous body. It was also proposed and accepted to award the toppers of the First and Final R.A. Examination each year. Shri P. S. Bhargava was the first recipient of the R.A. Examination Gold Medal that had Governor General's seal on one side and an inscription of his name, R. A. Final Examination and 1948 on the other. The Expert Committee presented its report along with the draft Chartered Accountants Bill for discussion in 17th meeting held on July 5, 1948. Shri S. Ranganathan presided over the 18th and final meeting of the Board held on November 21, 1948. It was decided to designate all accountants of India as Chartered Accountants. Shri G. P. Kapadia pointed out to the amendment in the Charter that the prohibition of the use of designation Chartered Accountant by members of other institutes belonging to other dominions would be taken away. This meeting was held in the room of the Commerce Minister.

Debate over the Title, *Chartered*

A systematic attempt to secure the appellation, Chartered Accountant, for the members of the accounting profession in India took place during the discussions on the Companies (Amendment) Bill, which was introduced in the Legislative Assembly on March 23, 1936. The amendment was sought in the Section 144 of the Bill.

Accountants, who were associated with one of the five societies of accountants in United Kingdom having Royal Charter, could call themselves Chartered Accountants. The demand sought the permission to use the label of Chartered Accountants for Registered Accountants, who had got the auditing rights through a certificate from Governor General in Council. The President of the Legislative Assembly was Sir Abdur Rahim. The amendment no. 181 was introduced by Shri Sushil Chandra Sen, a nominated official, who opposed the move of replacement of *Registered for Chartered*. Shri Mohan Lal Saxena of Lucknow Division and Pandit Shri Krishna Dutta Paliwal opposed Shri Sen's viewpoint. Indian Society of Accountants and Auditors sent a memorandum of concern regarding the treatment of the registered accountants. Sir Nripendra Sircar supported Shri Sen by alleging that non-Chartered accountants would 'commit a fraud...by posing as Chartered Accountants'. Pandit Govind Ballabh Pant of Rohinkund and Kumaon Division, Pandit Krishna Kant Malaviya of Benaras and Gorakhpur Division, the nominated non-official Shri N. M. Joshi, and Pandit Lakshmi Kant Maitra of Presidency Division supported the concern of the Memorandum. Sir H.P. Mody of Bombay Millowners' Asscociation, Shri Prakasa of Allahabad and Jhansi Division, and Sir Cowasji Jehangir of Bombay City probed the case further. Shri M. A. Jinnah of Bombay City put forth some fundamental questions. The last part of the discussion was dominated by Pandit Pant and Shri Jinnah.

Finally the Deputy Speaker Shri Akhil Chandra Datta pronounced the motion adopted. Shri Bhulabhai J. Desai of Bombay Northern Division talked about the promise of the creation of an autonomous institution of accountants with power to grant degrees and designations. This promise was fulfilled in 1948 with the appointment of the Accountancy Expert Committee under the chairmanship of Shri C. C. Desai. In its final meeting held on June 9-11, 1948, it was decided that the special Act would be preferably called the Chartered Accountants Act. In its report on July 4, 1948, it said that accountants in India would be called Chartered Accountants. The Chartered Accountants Bill was introduced in the Constituent Assembly of India that was referred to a Select Committee. The Select Committee submitted its report on March 1, 1949 and, then, there were no further obstacles.

The Institute Born!

The Institute of Chartered Accountants of India was eventually set up on July 1, 1949. Its first Council was inaugurated by the Hon'ble Commerce Minister Shri K. C. Neogy on August 15, 1949. Out of fifteen elected members, 11 had been the members of the Indian Accountancy Board:

Region I	Region II	Region III	Region IV	Region V
Shri G.P. Kapadia	Shri M.S. Krishnaswami	Shri S. Ghosh	Shri S.B.L. Vaish	Shri P.R. Mehra
Shri N.R. Mody	Shri C.S. Sastri			
Shri B.D. Birdy	Shri S. Suryanarayan	Shri S.N. Banerjea		
Shri N.M. Shah	Shri R.N. Rajam Aiyar	Shri G. Basu		
Shri N.M. Raiji		Shri M.K. Deb Mehra		

There were five nominated members: Shri C. C. Desai (Secretary to Ministry of Commerce), Shri Dr. Tarachand (Secretary to Ministry of Education), Shri S. D. Nargolwala (Commissioner of Income Tax, West Bengal), Shri G. M. Bathgate and Shri K. N. Gutgutia.

First President, Vice-President and Secretary of the Institute: Shri G. P. Kapadia and Shri G. Basu were elected President and Vice-President respectively and unanimously. The Government of India appointed Shri S. Venkataraman as the first Secretary to the Council.

First Toppers of C.A. Examinations: Shri Ajit S. S. Bhandari and Shri H. M. Talati were awarded the first G. P. Kapadia First President Gold and Silver Medals respectively for securing first rank in the Final and First Examination respectively held in November 1949.

"Shri Ajit S. S. Bhandari and Shri H. M. Talati were awarded the first G. P. Kapadia First President Gold and Silver Medals respectively for securing first rank in the Final and First Examination respectively held in November 1949."

Inauguration of the ICAI Headquarters (1954)

Bulletin and Journal: The Council of the Institute published its first Bulletin in January 1950 to provide correct information to its members. It, then, announced that the Bulletin would soon be replaced by a *Journal of the Institute.* Keeping up its promise, the Council published the first issue of its journal, *The Chartered Accountant*, in July 1952.

Institute's Building: Half an acre of land was allotted to the Institute at the rate of Rs. 4,000.00 @ acre plus 5 per cent of the amount as annual ground rent. Foundation stone of the Institute was laid by Shri C. D. Deshmukh, the then Union Finance Minister of India, on February 7, 1953. The building was completed in little more than one year and was inaugurated by the first President of our country Dr. Rajendra Prasad on April 2, 1954. ■

1949-60

Shri V. Narhari Rao, C&AG of India, speaking on 'Role of an Accountant & Auditor in National Economy'.

Shri C. D. Deshmukh, Minister of Finance, Government of India, laying the Foundation Stone of the Institute's building on 7th February, 1953.

Dr. Rajendra Prasad, President of India delivering speech at the opening of building of the Institute on 2nd April, 1954.

Shri Lal Bahadur Shastri, Union Minister for Commerce and Industry distributing prizes to successful candidates of C.A. Examinations at the 9th Annual Meeting of the Council held on 13th September, 1958.

Shri Lal Bahadur Shastri, Union Minister for Commerce and Industry, being received at the Annual Meeting of the Institute.

1961-70

Shri T. T. Krishnamachri, Union Minister for Finance (third from left) at the Music Recital of the 4th Conference of Asian & Pacific Accountants 1965 at New Delhi.

Shri G. S. Pathak, Union Minister for Law and Minister In-charge for Department of Company Affairs addressing the 17th Annual Meeting of the Council held on 12th September, 1966.

Photograph taken on Shri Fakhruddin Ali Ahmed, Union Minister for Industrial Development & Company Affairs visit to the Institute on 21st March, 1967.

Shri Morarji Desai, Deputy Prime Minister of India inaugurating the All India Seminar on Taxation and National Development on 13th – 15th January, 1968.

Shri S. Ranganathan, Comptroller & Auditor General of India at the 'Residential Training Course on Public Accountability in a Developing Economy' held at Bangalore from 7th - 12th October, 1968.

Shri Fakhruddin Ali Ahmed, Minister of Industrial Development and Company Affairs delivering his address at 19th Annual Meeting of the Council held on 13th September, 1968.

Shri G. S. Pathak, Vice-President of India, delivering the inaugural address at Seminar on Public Sector Accountability & Management on 7th – 8th March, 1970.

Shri M. Hidayatullah, Chief Justice of India addressing the 21st Annual Meeting of the Council held on 16th September, 1970.

1971-80

Shri R. Ranganathan, C&AG of India on the occasion of the laying of the foundation stone of the CIRC at Kanpur on 4th February, 1972.

Shri H. R. Gokhale, Union Minister for Law, Justice and Company Affairs delivering his address at the 24th Annual Meeting of the Council on 14th September, 1973.

Shri Fakhruddin Ali Ahmed, President of India addressing the delegates at the First Commonwealth Conference of Accountants held in New Delhi on 6th – 8th February, 1975.

Shri C. Subramanian, Union Minister for Finance at the First Commonwealth Conference of Accountants held in New Delhi on 6th – 8th February, 1975.

Thiru K. K. Shah, Governor of Tamil Nadu, inaugurates the Research Block of the Institute at Madras on 10th September, 1975.

Shri A. L. Dias, Governor of West Bengal, addressing at the inauguration of the new building of the EIRC at Calcutta on 14th April, 1977.

Shri H. M. Patel, Union Minister for Finance, and Shri Narsingh Yadav, Union Minister of State for Law, Justice and Company Affairs at the 28th Annual Meeting of the Council held on 16th September, 1977.

Shri Shanti Bhushan, Union Minister for Law, Justice and Company Affairs, addressing the members of the Jodhpur Branch of the CIRC on 7th October, 1978.

Shri Gian Prakash, the Comptroller and Auditor General of India addressing the gathering at the 29th Annual Meeting of the Council on 16th September, 1978.

Shri P. Shiv Shankar, Union Minister for Law, Justice and Company Affairs is addressing the gathering at the 31st Annual Meeting of the Council on 16th September, 1980.

1981-90

Giani Zail Singh, Union Home Minister is addressing the meeting arranged by the CIRC at Kanpur on 29th November, 1981.

Shri Jagannath Kaushal, Union Minister for Law, Justice & Company Affairs being received by the President of the Institute before the inauguration of the 100th meeting of the Council held in September, 1982.

Shri Pranab Mukherjee (fourth from left), Union Minister of Finance at inauguration of the Academy of Accounting set up at Calcutta on 30th May, 1983.

Giani Zail Singh, President of India, inaugurating the 10th Conference of CAPA held in New Delhi at Asiad Auditoriam on 21st November, 1983.

Group photograph taken with Mrs Indira Gandhi, Prime Minister of India on the occasion of a special function held for giving prizes to the two lady candidates who stood first in the Final C.A. Examination held in November, 1983 and May, 1984.

Shri H. R. Bhardwaj, Union Minister of State for Law & Justice, delivering inaugural address at the 10th Western India Regional Conference at Nagpur on 5th February, 1987.

H. E. Giani Zail Singh, President of India at the inaugural session of the Northern India Regional Conference.

President, Vice-President and Members of the Executive Committee called on H. E. Shri R. Venkataraman to felicitate him on his election as the President of India.

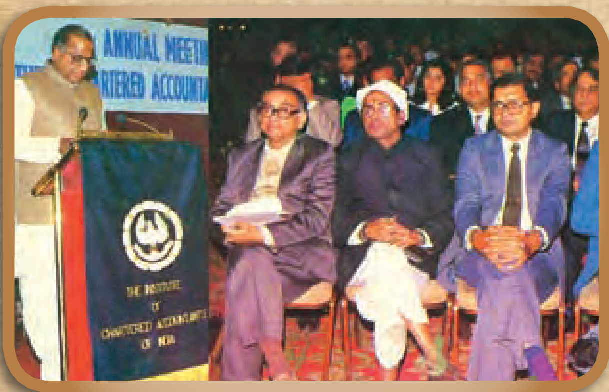
Chairman, NIRC presenting a cheque for Rs. 51,000 to Shri Rajiv Gandhi, Prime Minister of India for PM's Drought Relief Fund.

Dr. Shankar Dayal Sharma, Vice-President of India inaugurating the Northern India Regional Conference.

President of Institute along with the office bearers of the NIRC called on Dr. Shankar Dayal Sharma, Vice-President of India.

Justice Sabyasachi Mukherjee, Chief Justice of India, lighting the lamp at the inauguration of the 22nd All India Seminar on Taxation and Company Law held by the Institute at Calcutta from 11th – 13th August, 1990.

1991-2000



Shri Vijay Bhaskar Reddy, Union Minister for Law, Justice & Company Affairs, addressing the 42nd Annual Meeting of the Council on 16th January, 1992.

Shri Vijay Bhaskar Reddy, Union Minister for Law, Justice & Company Affairs (fourth from left) at the 13th All India Conference of Chartered Accountants held at Hyderabad on 5th - 7th February, 1993.

Dr. Manmohan Singh, Union Minister for Finance addressing the 13th western India Regional Conference on the theme 'A March Towards the 21st Century' on 27th – 29th November, 1993.

Shri H. R. Bhardwaj, Union Minister of State for Law, Justice & Company Affairs, at the 45th Annual Meeting of the Council held on 16th January, 1995.

Mr. Bali Ram Bhagat, Governor of Rajasthan (third from right), at the Seminar on ‘Globlisation and its Impact on commerce Education’ held at Jaipur.

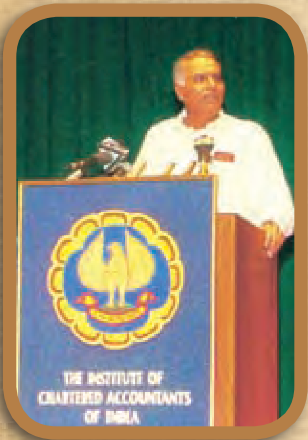
Mr. V. K. Shunglu, C&AG of India addressing the Members of the Council of the Institute at Hyderabad.

Mr. Khurseed Alam Khan, Governor of Karnataka inaugurating the Seminar on ‘FERA, Foreign Investment and Collaborations’ organised by the CPE Directorate of the ICAI.

Mr. Loknath Misra, Governor of Assam, at the Seminar on Capital Market organised by the Guwahati Branch of the ICAI.

Mr. P. Chidambaram, Union Finance Minister addressing the seminar on the Working Draft of the Income Tax Bill at New Delhi on 5th November, 1997.

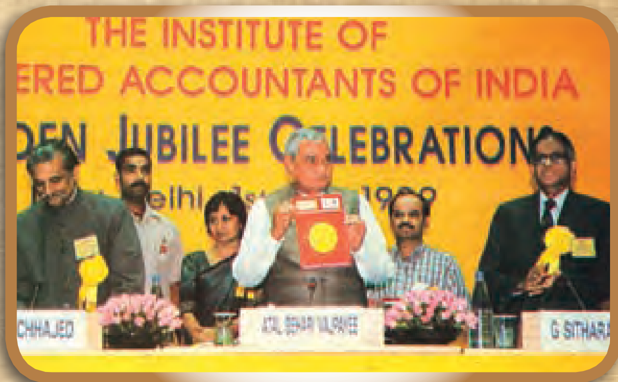
Mr. Atal Bihari Vajpayee, Prime Minister of India, lighting the lamp to commemorate the occasion of ICAI entering into its fiftieth-year on 1st July, 1998.



Mr. Yashwant Sinha, Union Finance Minister delivering speech at the Golden Jubilee celebrations.

West Bengal Governor Dr. A. R. Kidwai lighting the lamp to inaugurate the Institute's Golden Jubilee Conference at Calcutta on 4th December, 1998.

Mr. V.K. Shunglu, Comptroller & Auditor General of India at the 49th Annual Meeting of the Council held on 16th January, 1999.



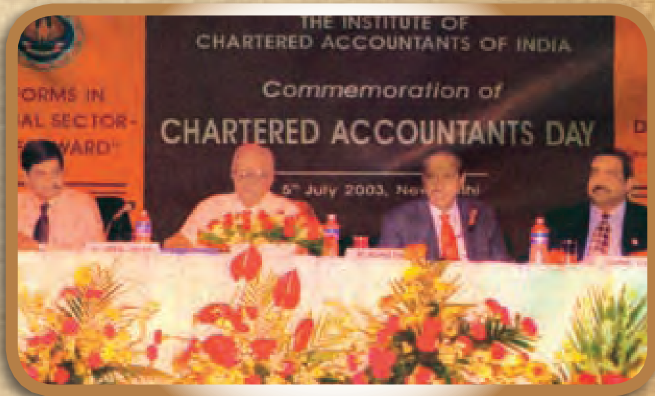
Hon'ble Prime Minister of India Mr. Atal Bihari Vajpayee releasing Golden Jubilee issue of *The Chartered Accountant* Journal.

2001-10

Hon'ble Prime Minister of India Mr. Atal Bihari Vajpayee releasing syllabus of New Scheme of Education & Training. Also Present on the Occasion Mr. Arun Jaitely, Union Minister of Law, Justice & Company Affairs and Mr. Suresh P. Prabhu, Union Minister of Power.

Hon'ble Shri Bhairon Singh Shekhawat, Vice President of India, releasing the document "The WTO Road Ahead" in New Delhi on 22nd February, 2003.

Hon'ble Shri Arun Jaitely, Minister of Law, Justice & Company Affairs lighting the lamp at the inauguration of the International Seminar on 'Small and Medium Practitioners: Issues and Challenges' at Mumbai on 28th May, 2002.



Dr. Bimal Jalan, Governor, Reserve Bank of India, delivered the special address on 'Reforms in the Financial Sector Way Forward' at the function organized by ICAI on 5th July, 2003 at New Delhi to commemorate the Chartered Accountants Day.

Shri Madan Lal Khurana, Governor of Rajasthan lighting the lamp to inaugurate the International Conference 'Redefining the Accountancy Profession: A Measured Response to Global Challenge' held at Jaipur on 11th – 13th March, 2004.

Rajya Sabha Deputy Chairman Shri. Rehman Khan inaugurates the SAFA Conference on 'Integrated Financial Sector in the SAARC Region' on 27th August, 2004 at New Delhi. Shri Prem Chand Gupta, Union Minister of State for Company Affairs (Independent Charge) was also present on the occasion.

Union Minister for Commerce and Industry Mr. Kamal Nath address the gathering at the 55th Annual Function of ICAI held on 4th February, 2005 in New Delhi.

Dr. Asim Dasgupta, Chairman, Empowered Committee of State Finance Ministers on VAT releases the "Guidance Note on Accounting for State- Level VAT" at Institute premises on 15th April, 2005.

His Excellency President of India, Dr. A. P. J. Abdul Kalam, gesturing as the spectators of the International Conference on 'Accounting Profession: Adding Value to the New Horizons of Economic Growth' at New Delhi on 1st September, 2005.

Mr. Ajay Singh, PVSM, AVSM, Hon'ble Governor of Assam inaugurates the 'All India Conference on Adding Value to New Horizons of Professional Excellence' in Guwahati on 24th December, 2005.

Sir David Tweedie, Chairman IASB & Mr. Graham Ward, President IFAC & Dr. Y. V. Reddy, Governor, RBI at the inauguration of International Conference on 'Role of Accountancy Profession in Anchoring Economic Growth' held at Mumbai on 19th - 21st January, 2006.

Mr. S. S. Sidhu, Governor of Manipur at the ICAI Awards for Excellence in Financial Reporting held in New delhi on 19th January, 2007.

Shri Somnath Chatterjee, Hon'ble Speaker of Lok Sabha at the 57th Annual Day Function of ICAI at New Delhi on 4th February, 2007

Mr. Prem Chand Gupta, Union Minister of Corporate Affairs addresses the gathering at the 59th Foundation Day of the Institute on 1st July, 2007 at New Delhi

Prime Minister of India Dr. Manmohan Singh; Deputy Chairman Rajya Sabha Mr. Rehman Khan and Union Minister of Corporate Affairs Mr. P. C. Gupta at the launch of ICAI Diamond Jubilee celebrations on 1st July, 2008.

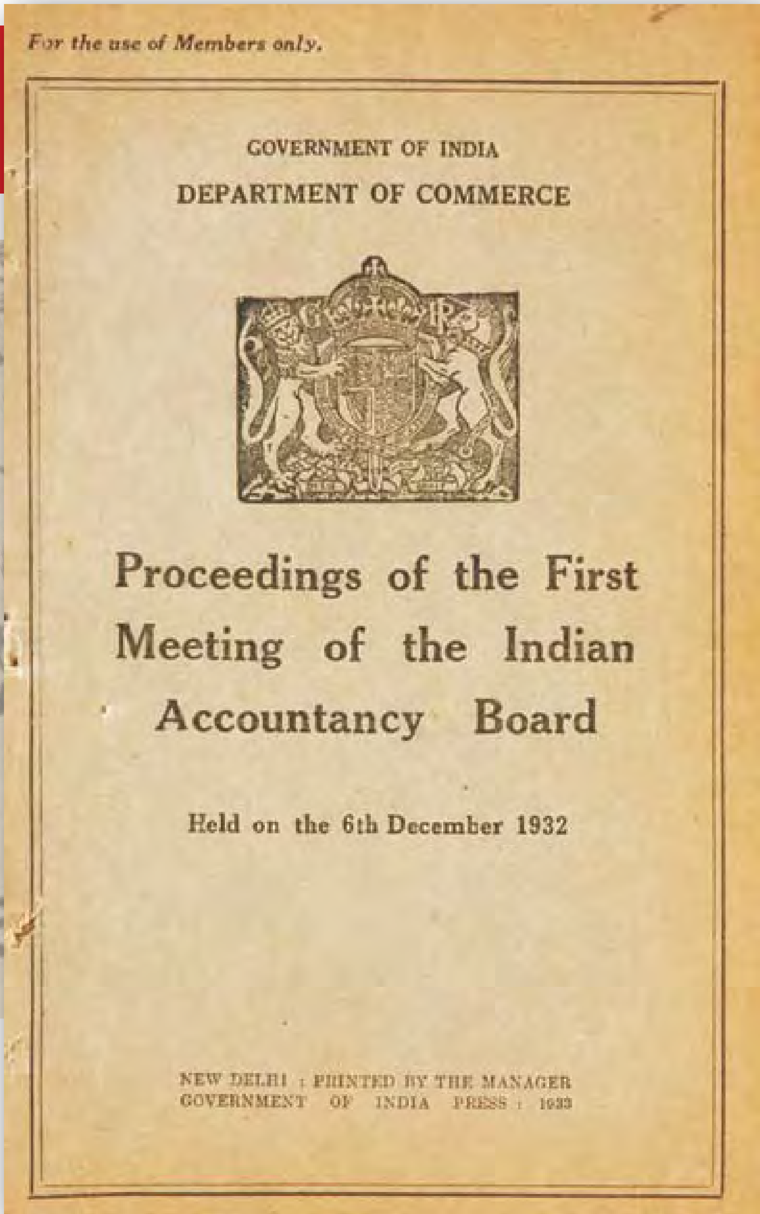
Union Finance Minister Mr. P. Chidambaram releases a Special Cover of Department of Post to commemorate Diamond Jubilee of ICAI at Vigyan Bhawan, New Delhi on 1st July, 2008.

Union Minister for Railways Mr. Lalu Prasad Yadav and Union Minister of Corporate Affairs Mr. P. C. Gupta launching new scheme of education and training namely Integrated Professional Competence Course, which includes the Accounting Technician Course on 10th December, 2008.

Mr. Kumar Mangalam Birla, Chairman, Aditya Birla Group and Mr. Sriprakash Jaiswal, Union Minister of State (Independent Charge), Coal Statistics and Programme Implementation at the ICAI Corporate Forum awards function held in January, 2010.

Prof. Saugata Roy, Hon'ble Minister of State for Urban Development and Poverty Alleviation; Shri Rajkumar Dhoot, Hon'ble Member of Parliament (Rajya Sabha) and Shri S. S. N. Moorthy, Chairman of the Central Board of Direct Taxes (CBDT) at the 60th Annual function of the ICAI held on 11th February, 2010.

in conversation



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GOVERNMENT OF INDIA

DEPARTMENT OF COMMERCE

Proceedings of the First Meeting of the Indian Accountancy Board

Held on the 6th December 1932

NEW DELHI : PRINTED BY THE MANAGER GOVERNMENT OF INDIA PRESS : 1933

- **Comptroller & Auditor General of India Mr. Vinod Rai**
- **Deputy Chairman Rajya Sabha CA. Rehman Khan**
- **Minister of Corporate Affairs Mr. Salman Khurshid**

C&AG and ICAI Need to Synergize their Efforts and Work Together in Areas of Mutual Interest: Vinod Rai

Often being referred as 'agent of change', Mr. Vinod Rai took over as the Comptroller & Auditor General of India on 7th January 2008. He has wide experience of working in various capacities at both, the Central and State Governments. His previous position was as Secretary in the Ministry of Finance, Government of India. Mr. Rai is also the Secretary General of the Asian Organization of Supreme Audit Institutions (ASOSAI). Having a Masters Degree in Economics from Delhi School of Economics, University of Delhi, and a Masters Degree in Public Administration from Harvard University, USA, he has been instrumental in giving a new direction to the apex auditor's office of the country in tune with the need of times. In a recent interview to ICAI, he shared his vision on a range of topics. Following is the interview given to the Editorial Board of the ICAI.

Q 1. Often being referred as 'agent of change', you have attained an inspiring height of success in professional life. Would you please like to share the mantra for a successful professional life with the CA fraternity?

Ans. I would like to exhort young professionals to take pride in their work and enjoy their workplace. Every attempt should be made to innovate and they should be prepared to take risks. Their endeavor should always be guided by professional values and ethics. I would also like to underline the importance of striking a balance between one's work and personal life.

Q 2. What is your vision for the C&AG office, the 150-year-old institution which is apex auditor's office in India?

Ans. The country is poised to emerge as a world leader. It's moving forward on a path of growth which has to be made irreversible. The momentum of growth has to be maintained. All institutions of government must play a positive and constructive role to facilitate growth. The institution of CAG has to play a critical role in promoting good governance. To achieve this we are seeking to redefine the role of the CAG. We want to reposition ourselves as an equal partner in the governance process and serve the interests of the public. The institution of CAG must be seen as a valued institution in the task of nation building.

Q 3. How is C&AG office keeping pace with changing times and ever increasing governmental complications? What are the main challenges being faced by C&AG today?

Ans. The structure and processes of governance have changed significantly over the past few decades. The range of Government activities has increased manifold. Government funds are flowing through multiple channels. Local Bodies, Societies and NGOs have become partners in the process of development. A large number of Regulatory bodies have been set up for regulation of various activities of the Government. The Government is actively encouraging Public Private Partnerships for development of infrastructure in the country. There has been ever expanding application of IT in government and public sector. There is also rising expectations from Audit. All these developments constitute major challenges for Audit. The Department has splendidly responded to these challenges. We have refined our performance audit techniques to capture more realistically what could have been accomplished vis-à-vis what was accomplished. We are constantly reviewing and modernising our audit practices and methodologies. Many of the new areas are complex and demand superior professional expertise. We are paying greater attention on skill upgradation through training. We have updated our Manuals and issued auditing Guidelines on various issues. In the audit of technical areas we have also started associating subject experts. The Department is fully geared to face the challenges.

“We have refined our performance audit techniques to capture more realistically what could have been accomplished vis-à-vis what was accomplished. We are constantly reviewing and modernising our audit practices and methodologies. Many of the new areas are complex and demand superior professional expertise. We are paying greater attention on skill upgradation through training. We have updated our Manuals and issued auditing Guidelines on various issues.”

Q 4. The Government is ‘actively considering’ to repeal and replace the existing C&AG’s (duties, powers and conditions of service) Act, 1971 with a new Act. In what way will it increase the ambit and powers of C&AG and address the constraints faced by it?

Ans. There is a need to revisit the CAG’s mandate to strengthen the accountability framework in Government. The Parliament last enacted the CAG’s (Duties, Powers and Conditions of Service) Act in 1971. There have been major developments and changes in the system of governance since then. With evolution of new patterns in spending through Local Bodies, NGOs, Public Private Partnership models, CAG needs to have explicit mandate to chase the voted rupee to its end-point. Existing mechanisms for ensuring public accountability of government expenditure through the new patterns are insufficient and weak. CAG’s powers to obtain documents, information and clarifications also need to be enhanced. Timely access to records is of absolute necessity. It should not be difficult as RTI now bestows the right to access government information in a time bound manner even to a lay citizen. Further, there is no limitation on the Governments’ prerogative to table CAG’s Audit Reports before respective Legislatures. We have proposed timelines for presentation of Audit Reports to the Parliament or State Legislatures.

Q 5. What has been the Government response to C&AG’s suggestions about audit of funds released through NGOs and audit of public-private partnership projects?

Ans. Government of India transfers large amounts of funds every year directly to NGOs for implementing various developmental programmes. As the NGOs complement the State activity, they must conform to prescribed standards and be subject to an effective oversight mechanism. Similarly, the PPPs have to remain under the Parliamentary oversight through audit by CAG. A comprehensive audit of PPP Projects requires access to the records of private partners for proper verification of their cost & performance in delivery of services and adherence to the contract conditions. Various stakeholders have emphasised the need for comprehensive audit of NGOs and the PPP projects by the CAG. The Government has been very positive on our suggestions to bring such organisations within our legal mandate.

Q 6. Government wants C&AG to focus its audit priorities on facilitating effective and economic use of public funds on the government's flagship (NREGA, JNNURM) and various other development programmes besides technical guidance and supervision (TGS) of audit of Panchayati Raj Institutions. What has been the progress on that front?

Ans. There has been increasing outlays on development activities. The Parliament and the public are interested to ascertain whether the flagship programmes of the Government are being executed efficiently and whether they are producing the expected results. Hence, these remain a priority area for us. We have carried out Performance Audit of major flagship programmes of the Government including National Rural Employment Guarantee Scheme, Sarva Shiksha Abhiyan, National Rural Health Mission, Mid Day Meals, Accelerated Rural Water Supply Programme and Accelerated Irrigation Benefits Programme. The focus is on issues that affect the well-being of fellow citizens—issues that touch their day-to-day lives. Issues like food, health, education and employment. We highlight the innovations, best practices and qualitative improvements perceived during audit in our Reports. The reviews provide recommendations to the Government for mid course corrections. The whole idea is to help the Government in better management of resources and strengthening of controls.

Q 7. It is learnt that you have written to the Government asking for regulatory bodies like the Telecom Regulatory Authority of India, Petroleum & Natural Gas Regulatory Board, etc. to be brought under C&AG auditing framework. What is the rationale behind this move?

Ans. Regulators have been created by an Act of Parliament and they are essentially discharging the functions of Government. Therefore, they must be accountable to the Parliament. This is the fundamental premise of our democratic set up. Oversight mechanisms are important tool for accountability. The Regulators world over are subject to oversight requirements. However, in India, several Regulators have been kept out of the purview of audit by CAG and, therefore, excluded from any effective legislative oversight. The Regulatory agencies should be subject to audit by CAG and legislative oversight by Parliament. Such an evaluation will create a mechanism for improving regulation and avoid arbitrariness in Regulator's functioning.

"The new Company Bill strengthens the independence of auditors by prohibiting them from performing certain non-audit services. This will improve the quality of audit services rendered by the members of the Institute. The Bill also includes provisions for enhancing the accountability of the auditors."

Q 8. C&AG office has recently entered into an arrangement with few hundred CAs to undertake assignments, as its extended arms. Do you foresee C&AG taking services of more and more CAs once the ambit and jurisdiction of C&AG audit enlarges with the proposed amendment to C&AG Act?

Ans. Public Audit is very diverse. Its reach is wide. It has large jurisdictions. The jurisdiction will get further enhanced with explicit mandate to chase the voted rupee to its end-point. However, the Department has limited resources in terms of manpower. We are, therefore, seeking partnership with various organisations to overcome our limitation in this regard. On technical issues we are seeking the help of experts. The accounts of a large number of government companies, statutory corporations, autonomous bodies and district councils are in arrears for many years and audit of these accounts are also getting delayed. Many State Governments have sought our help in preparation of accounts of these bodies. We are, therefore, constantly working out ways to get over the problem of shortages and seeking the help of other organisations/experts under our superintendence.

Q 9. China has been revamping its audit system and wants to borrow some of the Indian best auditing practices. How can C&AG be helpful in this regard?

Ans. The institution of CAG of India has a history of 150

"The two organisations (ICAI and C&AG) need to synergise their efforts and work together in areas of mutual interest. Sharing of experiences in the field of Accounting and Auditing Standards will enhance the quality of audit. In this regard, it is heartening to learn about the initiative taken by the Institute to hold joint seminars in which the representatives of the office of CAG, ICAI and PSUs participate to interact and exchange views with each other in regard to key contemporary issues relating to audit of PSUs."

years. The organisation follows auditing standards and principles which are comparable to the internationally accepted standards and practices. Our audit methodologies are well prescribed and codified for all types of audit. Our audit plans are based on risk assessments. We have a vast pool of specialised professionals experienced in audit of diverse areas. We share our principles, techniques and experience with other Supreme Audit Institutions on various platforms and through different committees, working groups and task forces. We are involved in various bilateral arrangements for knowledge sharing.

Q 10. The Government Accounting Standards Advisory Board (GASAB) has been focusing on reforms in Government Accounting. How far has the GASAB been successful on that front? What is the way ahead?

Ans. The Report of the Twelfth Finance Commission had recommended the introduction of an accrual-based system of accounting in Government of India. The Government of India had formally accepted this recommendation in principle and had asked the Government Accounting Standards Advisory Board (GASAB) to draw a detailed road map and an operational framework for implementation. GASAB has drawn up a detailed roadmap and an operational framework involving various steps to be taken during the course of migration and the stages in which migration may take place. Seminars and Workshops have been conducted to create awareness. Few pilot studies on accrual accounting have already been done at the Union and State level. The World Bank is also supporting GASAB in various pilot studies. There has been encouraging response towards the change to accrual accounting. Departments of Posts and Railways are keen for accelerated transition. Twenty one State Governments have agreed in principle to introduce accrual accounting. Various State Governments have notified 'Task Force' to facilitate the migration process. The process of migration is complex. Therefore, we have to pool our energy and resources. There has to be a time-bound programme to migrate to accrual basis accounting. The strengths of accrual accounting are well established. Once implemented, the positive spin-offs of accrual accounting would be immense.

Q 11. Being the supreme auditing institution in India, C&AG has been instrumental in setting high standard of auditing in India. What is the future of Auditing Profession in India and abroad?

Ans. Accountability of the Executive to the Parliament and through the Parliament to the citizens of India is an essential element of our Constitutional system. Audit by the institution of the CAG is the arrangement envisaged by the framers of our Constitution for promoting accountability and good governance. We hope to continue fulfilling the duties and responsibilities cast on us by the Constitution of India. We hope to play our role in helping the Government to manage public resources economically, efficiently and effectively and in strengthening financial management systems. In short, Audit will continue to partner the Executive in promoting good governance in the country.

Q 12. How far will the Companies Bill be beneficial to the auditing profession in India?

Ans. The new Company Bill strengthens the independence of auditors by prohibiting them from performing certain non-audit services. This will improve the quality of audit services rendered by the members of the Institute. The Bill also includes provisions for enhancing the accountability of the auditors. Besides, it makes provision for setting up National Advisory Committee on Accounting and Auditing Standards to advise the Central Government on the formulation and laying down of accounting and auditing policies and standards applicable to companies or class of companies or their auditors, as the case may be. Presently, auditing policies and standards are not under the purview of the National Advisory Committee on Accounting Standards set up by the Ministry of Corporate Affairs. Thus, the new bill will provide legal recognition to the auditing policies and standards.

Q 13. C&AG's vision is 'to promote excellence in Public Sector Audit and Accounting Services towards improving the quality of governance". In the current scenario when Public Sector Companies

Accounting reforms in Government is the need of the hour. The Institute as a member of GASAB is actively supporting the reform process. The accounts of the Central and State Government as well as of local bodies/autonomous bodies of the Government are going to be maintained on double entry system in the coming years. As and when these accounts are converted into double entry system, CAs will certainly have new role to play in the field of accounting, auditing, and consultancy.

are increasingly getting tech-savvy, what role the 'Technology Audit' and 'Science Audit' can play in achieving the above said vision?

Ans. In India, scientific ministries like atomic energy, space, environment & forests, council for industrial & scientific research, bio-technology, electronics, agricultural research, medical research etc, spend around Rs.21,000 crore annually. In the recent years the focus of audit has shifted from expenditure based audit to a more holistic audit wherein performance in 'basic research' is measured in terms of quality of scientific publications and 'applied research' in terms of successful commercialisation of developed technologies. Good performance is being taken on board, valued and appreciated. We have highlighted innovations and good practices of institutions/States for dissemination and adoption by others. The significant issues reported in the recent years have been 'Management of Waste in India', 'Management of Pressurised Heavy Water Reactors', 'Procurements & Inventory Control in Department of Space' etc. We have been involving stakeholders like civil society organisations, local/international experts, corporates etc., for identifying critical issues of concern in these scientific organisations. We are currently in the process of reviewing 'Water pollution in India' wherein besides intense stakeholder involvement, we have also been directly eliciting views from the public through media advertisements so that we are able to appreciate the concerns of the general public before we embark on the audit exercise.

Q 14. In what ways the focus of 'Government Audit' is different from the 'Commercial Audit?

Ans. The CAG is the sole authority prescribed in the Constitution entrusted with the responsibility of audit of the accounts of the Union and of the States. It is the duty of the CAG to audit receipts and expenditure of the Union and each State and UT Governments. The broad objectives are to ensure legality, regularity, economy, efficiency and effectiveness of financial management and public administration. Government Audit is a vital instrument of ensuring the supremacy of the legislature over the executive and enforcing public accountability. We have focused our attention on the major flagship programmes of the Government which involve huge sums of money and are targeted to affect the quality of life of a common man. The scope, nature and the focus of Commercial Audit is different. Apart from the test audit which covers transactions entered into by a company with a view to examining their regularity, propriety, economy, efficiency and effectiveness, the CAG conducts supplementary audit. It is the statutory auditor who is primarily responsible for expressing an opinion on the accounts of the company. Supplementary audit of the accounts by the CAG is mainly an instrument of quality control of financial audit of accounts. It is to ensure that the financial statements of the commercial undertakings give a true and fair view of its state of affairs. The scope of supplementary audit includes an examination of selected accounting records and a review of the audit report of the statutory auditor including the opinion expressed by him on the annual accounts of the company. The CAG directs the manner in which the statutory auditor shall audit the accounts of the company.

Q 15. With more and more government departments moving from 'Fund Based Accounting' to 'Double Entry System of Accounting', will it facilitate 'Performance Audit' and 'Regularity (Compliance) Audit' or vice versa?

Ans. As a result of moving towards double entry system, the accounts of government department would disclose a better status of Income that accrues in a particular accounting period (whether received or not) from the beneficiaries to whom the department renders service. Presently, income received but belonging to past accounting periods or future periods are depicted as income in the accounts of the current accounting period and thus performance of the relevant accounting period in terms of income cannot be assessed properly. Thus, double entry system of accounting will facilitate the auditor in gauging the actual performance of a government department in terms of income earned by it from an activity. Similarly, expenses and related liabilities would also get correctly accounted for to give an overall view to the auditors of the funds expended on a programme or activity during a financial year. Fixed assets, current assets and current liabilities would also get correctly exhibited to see real accretion out of a particular programme or the department as a whole. In compliance audit, the auditor would be able to see whether a provision for discharging a liability, a refund, an income received in advance has been correctly accounted for. Similar would be the case for income receivables and their follow up. This would help the auditors to make a better assessment of the functioning of the department.

Q 16. How do you think the 'C&AG' and 'ICAI', two organisations working in the same field, can better contribute and work together for setting the highest standard of auditing in India?

Ans. The two organisations need to synergise their efforts and work together in areas of mutual interest. Sharing of experiences in the field of Accounting and Auditing Standards will enhance the quality of audit. In this regard, it is heartening to learn about the initiative taken by the Institute to hold joint seminars in which the representatives of the office of CAG, ICAI and PSUs participate to interact and exchange views with each other in regard to key contemporary issues relating to audit of PSUs. I hope that this initiative is carried forward. Besides, a representative of the CAG is also on the Auditing and Assurance Standard (AAS) Board of ICAI to apprise the ICAI of the views of the CAG for better auditing practices in India.

Q 17. 'CAs' and 'Auditing' are so closely associated with each other that sometimes people refer CAs as 'Auditors' only. In such a situation when CAs are already shouldering responsibility of a lot of statutory audits, do you foresee any newer roles for CAs in the coming days in this area?

Ans. Accounting reforms in Government is the need of the hour. The Institute as a member of GASAB is actively supporting the reform process. The accounts of the Central and State Government as well as of local bodies/autonomous bodies of the Government are going to be maintained on double entry system in the coming years. As and when these accounts are converted into double entry system, CAs will certainly have new role to play in the field of accounting, auditing, and consultancy.

Q 18. What message would you like to convey to the Chartered Accountants Community through the ICAI journal?

Ans. The contribution of the ICAI in regulation of the accounting profession and providing leadership has been exemplary. The members of the ICAI should continue to uphold high standards and discharge their professional duties with due diligence. Each member of the Institute must play a role in enhancing professionalism, credibility and ethics. Maintaining independence and ensuring compliance of reporting obligations under the relevant statutes, laws and standards is of utmost importance.

The accounting profession is in a very dynamic phase in its history. It is imperative to keep pace with the rapid developments and adopt globally accepted best practices. The ICAI as a premier accounting body has, therefore, its role cut-out. ■

> **"The contribution of the ICAI in regulation of the accounting profession and providing leadership has been exemplary. The members of the ICAI should continue to uphold high standards and discharge their professional duties with due diligence. Each member of the Institute must play a role in enhancing professionalism, credibility and ethics. Maintaining independence and ensuring compliance of reporting obligations under the relevant statutes, laws and standards is of utmost importance."**

We Should Aim at 'Inclusive Growth' of Accountancy Profession in India: Rahman Khan

From a Chartered Accountant to Deputy Chairman Rajya Sabha, CA. Rahman Khan has scaled inspiring heights of success and excellence in both professional and public life. Being a valuable asset to the society at large over the years, he has been a dependable Friend, Philosopher and Guide to the accountancy profession in our country. In a recent interview to ICAI, he shared his vision on various issues concerning the accountancy profession. Following is the interview given to the Editorial Board of the ICAI:

Q 1. What is the secret of your success from a Chartered Accountant to Deputy Chairman of Rajya Sabha?

Ans. Life should be purposeful, even if you live for short period. God has created human being in his mould and it is said that He Himself felt that human beings are the best of His millions of creations. Hence, every human being should be useful to the society, and contribute for wellbeing of the society. Whatever, little success I have achieved is due to grace of Allah and my parents, who have imbibed in me cherished values, to serve the society. My parents have always cared and nurtured the poor and the needy and these ideals of service to society are something I like to carry on in their memory. Besides, the respected profession of Chartered Accountancy to which I belong, gave me the strength and confidence to face the challenges at every level.

Q 2. Why did you opt to be a CA in the First place? Have the skills acquired as CA student and CA Professional helped you build a career in politics and deliver to the benefit of the nation?

Ans. Being a commerce student, the options before me to build my career was to pursue Masters in Commerce or CA. I opted for CA as my father also wanted me to be a CA. But, it was a difficult decision. Hailing from a rural background, finding a right company for articles was a Herculean task, in the late fifties. It was not easy to get articles in good firms. I had almost given up, but thanks to Shri S.R. Mandre who was one of the most respected CA firms of Bangalore, who offered me articleship.

For CA student, the training he gets during the articles is unique. During the years of articles, a CA student gets practical hands on training. He/she will have the benefit of looking into critically the functioning of different and varied types of establishments. This helps him to develop his understanding of complex problems facing different types of establishment and understanding the functioning of them. Every time a CA student or a CA undertakes an assignment, either as auditor or consultant or as an advisor, he will have to use his professional skills, analytical abilities to absorb, assimilate and comprehend the subject, which he has to deal thoroughly, then give the optimum solution to the problem and resolve any crisis smoothly.

In my journey from profession to public service, through politics, my professional skill acquired as a CA student and as Chartered Accountant, has played a major role in my progress and whatever best I could contribute, for the benefit of the nation, as a legislator and as a Parliamentarian. As a Presiding officer, both at the state and at the national level, my professional training has helped me in discharging my duties without fear or favour.

Q 3. What is your vision for Chartered Accountancy Profession in India and the World?

Ans. The profession of Accountancy in India and the World over is considered as an important organ for establishing financial accountability in every sphere of financial activities. The Chartered Accountancy Profession has played a very important role in the economic growth of India during last 60 years. The very fact that one of the important legislative steps taken by Independent India to enact the Chartered Accountant Act of 1949, even before the country adopted its Constitution goes to prove that the profession is important. We are proud of the achievement, progress and contributions of the Institute and the profession. The institute and the profession will face new challenges, particularly when India is embarking on high growth rate and also emerging as economic power. The profession should prepare itself to play a pro-active and dynamic role in India's growth. The profession should redefine its role as a watchdog of public expenditure and investments. It should come out of its traditional role of client centric approach and emerge as representative of the civil society to maintain financial ethics and propriety in the civil society. The stake-holders, who depend and trust the Chartered Accountants, are not only ones who engage them. The Chartered Accountant has a binding obligation towards the stakeholders who repose confidence in him – in his expertise and competence as a professional. There are several

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stake holders, whose interest he has to safeguard and protect. My vision for the profession of Chartered Accountancy is that we as a Professional Fraternity should look beyond the profession, be more than just bean counters who look into the financial figures. We must integrate our Profession, use the vast resources and network we have, to the service of our great nation. Wherever there is growth and development, there is need for financial prudence and fiscal discipline, be it a gram panchayat, NGO organisation, quasi judicial organisation or government organisation. We must put in efforts to be the true Partner in Nation Building. The Motto of the Institute "Ya Esa Suptesu Jagarti" needs to be followed in thought, deed and in true spirit.

Q 4. How has this profession been helpful in nation building over the years?

Ans. As I have stated earlier, the profession has played an important role in the economic development of the country, both in its traditional role as Auditors, Tax gatherer, and the new role as financial managers, administrators and consultants. There have been no major pitfalls and the Institute has grown from strength to strength. The nation has recognised the role of the profession and its contribution in nation building activities.

Q 5. The professional horizon of Chartered Accountant is expanding fast. What is the scope for CA at present and in future? In what ways can they be more useful for the society?

Ans. The very fact that the number of CAs in the Country has grown from few hundred in the beginning to 1,50,000 plus in the last sixty years, reflects the expansion of the profession over the years. The profession has expanded its horizon and rendering its services in different fields, in addition to its traditional roles. The CAs are now functioning as financial advisors, CEOs, Consultants, Bankers and Administrators. They are also involved in the process of policy framing and planning. The very fact the number of CAs in Industry is growing fast is an indication of the popularity of the professional skills of the Chartered Accountants.

The future of the CAs is very bright and it is the responsibility of the Institute to redesign the training programmes of the future CAs keeping in view the future challenges, faced by the profession and maintain its pre-eminent role. As I said earlier, it is the civil society, which has given the pre-eminent role to CA profession, and society expects from the profession that role assigned to the profession from time to time by the society shall be discharged by protecting the interest of the society. In the Indian context, at present in a growing economy, protection of savings of public and the investment is the primary usefulness of the CA to the society.

Q 6. What are the Main challenges before the Chartered Accountancy professionals in the present times? How can they overcome the same?

Ans. The biggest challenge before the CA profession is its competence to face the challenges from the similar emerging professions in the competitive era and to retain the trust, the profession enjoys in the society. The Statutory protection will not help; it is your core competence which will help. Hence, the CA profession and the institute will have to prepare to face this challenge, and not to be complacent, about its future. The profession has to assess, its role, and enhance its core competence, to face challenges not only from other emerging professions, but guard itself and its members from having a complacent attitude. Unless we as a Fraternity of Professionals re-engineer and re-orient ourselves to attune to the needs of the society, trade, commerce, and industry we will find ourselves redundant. The ICAI has introduced many post qualification courses, but it also needs to keep in mind those Chartered Accountants who are practicing in small towns and mofussil areas and are serving the needs of the small business units located there. ICAI should aim at 'Inclusive Growth' of the entire profession.

Q 7. How will the Companies Bill, 2009 impact accountancy profession? Don't you think that there should be some limitation on auditors liability and there should be greater emphasis on their independence in the Companies Bill 2009?

Ans. The Companies Bill 2009, which has been introduced in Lok Sabha, after being examined by the standing committee, is an attempt, to revisit the Companies Act, 1956, with more than 600 sections and needed changes in view of the increasing corporate frauds, to make Corporate Governance more transparent, and to safeguard the public investment, to increase options and avenues for international business and trade flow. I am sure the Institute has been fully involved in the process from the stage of the expert committee headed by J. J. Irani. The bill will definitely impact the profession, as it is our professional responsibility to convey to all stake holders, whether the accounts and financial affairs of the company are true and fair. Clause 126 of the bill has defined the duties of the Auditor and the Auditing standards. Much stress has been given in this bill regarding the Auditing and Accounting standards to be followed by the company and the auditor. I think that the bill has given greater emphasis on the independence of the auditor. So far as limitation of the auditors liability is concerned, I feel that the auditor can safeguard his liability under clause 126(4), if he feels that any of his duties covered under clause from 126(1) to 126(3) are violated.

"The Institute of Chartered Accountants of India (ICAI) is probably only body which combines itself the role of an educator, standard setter qualifier and as a regulator. The Institute in over sixty years of its existence has discharged all these roles in an exemplary manner."

Q 8. How will convergence of Accounting and Auditing standards with global Standards help the country and CA profession?

Ans. The convergence of Accounting and Auditing Standards with global standards is a compulsion in era of globalisation. As more and more Indian companies are expanding their international operations, acquiring companies outside India, the Auditing and Accounting Standards should be uniform. This will help our corporate sector to increase their international presence. It will also help our profession as the Indian CAs can also expand their activities globally.

Q 9. How can CA Profession help in incorporating the Double Entry Accounting Methodology in Government departments?

Ans. The government accounting procedures are outdated and not transparent. They are based on Single Entry System and not reflect the assets and liabilities of a department. The Double Entry accounting methodology will ensure transparency and accountability. In an era of Right to Information, the Single Entry accounting methodology will not provide the correct information of the expenditure. The government has already accepted in principle, for the conversion, but the pace of conversion is very slow. The Institute, in association with the Comptroller and Auditor General of India (CAG), should launch an awareness programme to the public about the advantage of Double Entry method of accounting and its benefits.

Q 10. Satyam episode was more a failure of Corporate Governance and system than any thing else. Still many believe it jolted the trust bestowed on Auditing profession by society. What is your view?

Ans. No doubt, Satyam episode was more a failure of Corporate Governance and systems. But, at the same time I am of the strong view, that the profession cannot escape its responsibility and accountability. It was the responsibility of the Auditors, to report the failure of Governance and the systems. Though the Auditor, may have very little role as far as Governance is concerned, but he is responsible for the failure of system and procedures. The feeling of the society that the trust bestowed on the Auditing profession by the society has been betrayed, is justified. The Satyam episode, the Share Scam, and certain Corporate Frauds may certainly have reflection on the profession. The institute should take steps to restore the faith and trust of the society in the profession by taking stringent action against the erring members, who fail to observe the professional ethics. The Institute has to deliberate as to how such incidents may be avoided in future and what corrective measures to be initiated by the institute as a regulator. I strongly advise the Institute that it should advise the Government to introduce rotation of Auditors for the listed companies.

> **“Let us keep up the trust, let the Motto of the Institute be our guide. Be faithful to the profession and follow the professional ethics and enhance the image of the profession. Our members should adjust themselves to the ‘market driven demand’ instead of relying on ‘regulation driven demand’ without in any way compromising professional ethics and integrity.”**

Q 11. How do you find the performance of ICAI, as a Regulator, Standard setter, Educator and as a Partner in Nation building?

Ans. The Institute of Chartered Accountants of India (ICAI) is probably the only body which combines in itself the role of an educator, standard setter qualifier and a regulator. The Institute in over sixty years of its existence has discharged all these roles in an exemplary manner. With the growing number of students, Chartered Accountants and the challenges the profession is facing and will be facing, there is an apprehension about its effective role as a regulator. The country and the Institute cannot afford to face one more Satyam like episode. The policy making body and the regulator of the profession is the Central Council of the ICAI. The process of election to this body needs drastic changes, to ensure, no dilution takes place in the values cherished by the founding fathers of this great institution.

Q 12. Of late, you have been advocating a need for an Islamic Banking in India that needs an Institutional Mechanism for its establishment. What is the progress on that front?

Ans. Islamic Banking is an alternative Banking system. It is based on participative system of Banking, wherein the investor or depositor, the borrower and the Bank, participate in the venture and share the profit or loss of the venture. The Mutual funds, Venture capital, leasing activities are part of the Islamic Banking activities. Most of the western countries have permitted the establishment of Islamic Bank. Efforts are on to convince the Government, and the RBI to set up an Institutional Mechanism to take the benefit of emerging Islamic Banking market.

Q13. What is your message for Chartered Accountants fraternity in India?

Ans. My message to our CA fraternity is that we belong to a great profession. The society, the Govt. and the investing public have given us a unique position as guardians of their interest. Let us keep up the trust, let the Motto of the Institute be our guide. Be faithful to the profession and follow the professional ethics and enhance the image of the profession. Our members should adjust themselves to the ‘market driven demand’ instead of relying on ‘regulation driven demand’ without in any way compromising professional ethics and integrity. ■

We Need to Unlock Huge Potential of Indian Chartered Accountants for the World: Salman Khurshid

The Union Minister of State for Corporate Affairs and Minority Affairs (Independent Charge) Mr. Salman Khurshid is known as a suave, energetic, efficient and successful teacher-lawyer turned politician-with-foresight-and vision. Strong proponent of transparency, corporate governance, corporate social responsibility and accountancy profession, Mr. Khurshid has given a fresh lease of life to a relatively new Ministry of Corporate Affairs. In a recent interview to ICAI, the minister spoke his mind and shared his vision on a range of topics, including accountancy profession. The interview as given to Editorial Board of the ICAI is reproduced as following:

Q 1. At the outset, we must congratulate you for deftly managing the affairs of the Ministry. The kind of initiatives which we have been noticing, like organising India Corporate Week, etc. are path breaking. What is the idea behind this?

Ans: The idea behind the India Corporate Week was to bring together Indian corporate on a single platform and recognise the good work done by them. It was the idea of the Secretary to the Ministry. I have just supported it. It was organised at a very short notice, and we were able to achieve the objective of the India Corporate Week in a respectable way. It turned out to be a quite satisfactory and good beginning. I hope it is a successful and exciting journey. The India Corporate Week will get larger with media partners joining in this year.

Q 2. Can you please trace your journey from a successful lawyer to the Union Minister of State for Corporate Affairs and Minority Affairs (Independent Charge)?

Ans. Actually, I started my professional journey as a teacher. I taught law for three years in Oxford. Then I worked in Prime Minister's Office. So, law was my third destination.

Q 3. Is there still a teacher left in you?

Ans. I hope so. The first and most enjoyable part of my life was as a teacher. I do still retain the element of a teacher in me, which may be distressing to people who do not want to be lectured. But I enjoyed teaching.

Q 4. You have indeed given a fresh lease of life to Ministry of Corporate affairs since taking over. What actually you see as the main challenges for your ministry?

Ans. The Ministry was carved out because there was a feeling that in our country there is a vast un-chartered area of corporate governance which until recently was only limited to compliance of law. But other dimensions of corporate governance that require specific culturing, advocacy, regulation and certainly greater discovery, were more or less ignored. That was why this Ministry was carved out. Otherwise, there are many countries in the world, which do not have a counterpart for us. Our ministry is a significant part of governance in our democracy. The economic enterprise, which is part of our polity, cannot be seen with less importance. Therefore, carving out of a separate ministry for the purpose was a great foresight.

Now, we need to build on that platform, and in order to build that platform, we need to provide special Indian flavour to corporate governance, special Indian models of corporate governance, and not just pick up models that are there in other countries. We have to excel in corporate governance and present a successful Indian model of corporate governance to the rest of the world. In this regard, we may learn from Germany as far as industry is concerned; from US as far as financial institutions are concerned; from UK as far as political institutions are concerned and from Japan as far was business enterprise is concerned.

"We need to provide special Indian flavour to corporate governance, special Indian models of corporate governance, and not just pick up models that are there in other countries. We have to excel in corporate governance and present a successful Indian model of corporate governance to the rest of the world."

"I think a particular area in which India can make a major contribution is corporate social responsibility. We need to focus beyond the shareholders and bring about, as we have seen in recent times, greater focus and emphasis on the ideas of Mahatma Gandhi regarding trusteeship."

Q 5. How important is the concept of Corporate Social Responsibility for the nation. What is your Ministry doing to promote and encourage this concept?

Ans. I think a particular area in which India can make a major contribution is corporate social responsibility. We need to focus beyond the shareholders and bring about, as we have seen in recent times, greater focus and emphasis on the ideas of Mahatma Gandhi regarding trusteeship. We require to empower society at all levels so that it is able to play it due role in achieving the larger, futuristic objectives of our nation.

Q 6. MCA-21 e-governance project launched by the Ministry has been a great success. Do you feel more transparency is required to be brought in?

Ans. It has become a powerful tool for regulation. It is also a learning process for us. It is the first generation e-governance tool. We will be moving to the second generation of MCA-21 in next two years. It will be far more interactive and transparent than it is today. It will be an effective tool for research and will equip us much better to do forward planning. We have to know much more about ourselves before projecting ourselves before the world and that's what MCA-21 is going to do. It can act as early warning system and facilitate lipid profile test for companies because information is now available at one place and all you need to do is scientifically, analytically and objectively pick up that information and see whether that indicates a pattern.

Q 7. Going by Satyam episode and Companies Bill 2009, we are sure the Ministry has taken lot of further insight. How do you see simplification of the Companies Bill and the role of the Ministry as far as Serious Fraud Investigation Office is concerned?

Ans. Serious Fraud Investigation Office is like any investigating agency which must have autonomy and a fair degree of independence so that they can do objective investigations and are not influenced by any subjective considerations. But they have to function within the larger framework of the Ministry. We found that there were many inadequacies in SFIO, in terms of personnel, infrastructure, etc. so much so that even one crisis like Satyam overstrained them. We needed to address many issues arising out of Satyam. But we are now strengthening it. There are some legal issues, which will get addressed in the new Companies Bill, which I hope will come before Parliament by the end of this year. We have had a useful, productive and fruitful discussion in the Parliamentary Committee concerned, and we are looking forward to an appropriate, timely and state-of-the-art legislation that will be available in future. Inadequacies will be suitably and adequately addressed.

Q 8. Do you fear more Satyam-like scams in India? If yes, which sectors does one have to watch out for? How to prevent such scams?

Ans. Perhaps we could have picked up this scam had we had early warning system. However, many things just cannot be picked up, because it is very difficult to pick up cheating. It is easy to pick up negligence or fraud on a larger scale. But if someone becomes personally dishonest, it does take time to come to know, particularly when it is a successful company of a high calibre. The kind of criminality that went into Satyam episode is alarming. The fixed deposit certificates were fudged and accounts were fictitious. This cannot be done, unless large number of people were involved. When things are computerised and everything can be checked and rechecked, there was a missing link and that missing link was 'adequate supervision' of statutory auditors. That has been a major concern. In this regard, we have been speaking to ICAI and other people, and we are looking at suggestions given by experts, as to how we can improve regulatory provisions, as far as ICAI is concerned – particularly with regard to its supervision of both quality and of integrity of statutory auditors.

After the software revolution in our country, what we need today is to unlock the huge potential of our accountants for the world, which will be required in larger and larger number, particularly when IFRS is accepted globally.

We work closely with ICAI and admire the work done by ICAI... We are willing to be your partners and to push your ideas. With an outstanding performance record of the ICAI, I would like to see ICAI taking the lead. This is the reason why they are the nodal agency for what I call the accountancy revolution in India.

Q 9. We have already submitted the Volume II of the report of ICAI's High Powered Committee formed post-Satyam. What is your opinion about it?

Ans. Yes, we are examining it in close collaboration with ICAI. There are some issues with reference to what happened after Satyam while others pertain to the larger structure of the profession of accountancy. We are also talking to big firms, who have made suggestions to us. There are some areas of ambiguity, some areas that need greater clarity and greater accountability particularly when something goes wrong. How do we make companies and firms accountable for acts of individuals is also being examined.

Q10. An effective insolvency system is an important element of financial system's stability. What has been your vision to address this area of Corporate Law Reforms? Recently, the Conference on Insolvency Reforms was also organised by the Ministry.

Ans. The conference was organised by an autonomous body and we participated in it. We consider insolvency reforms to be of extreme importance for corporate sector. This is an area in which we are lagging behind. It takes very long time to wind up companies. We are moving extremely fast and exit routes have to be both convenient and transparent. This is something which calls for urgent attention. We have been discussing with stakeholders and we are making provisions in the new Bill.

Q 11. In some State Public Sector Undertakings, accounts have not been written for last 25 to 29 years. How do you view this situation?

Ans. Questions have been asked in this regard in Parliament too. We have flagged it. I have talked to the Industry Minister and Secretary for Public Enterprises about

We want our accountancy sector to grow big. But for that, our accountancy professionals have to unleash their imaginations to push their way in global accountancy arena. But India has pushed its way everywhere and I don't see any reason why our accountancy profession can't do it. The age of protectionism has gone… But we are there to give you a head start.

this. I think they are equally concerned about this. We had an occasion to talk to the Accountant General of India also in this regard. There are some issues of Central and State relations as well. We can take care of Central public sector units but there are State public sector units, which have a separate regime applicable to them. We have to look holistically and look into it. We cannot expect private sector to fall in line if we are tardy in compliance in public sector. We have to put our house in order.

Q12. What is your comment on Limited Liability Partnership Act? How will it prove beneficial to professionals?

Ans. LLP Act is working and we already have a large number of people filing for LLP. There were some tax issues that have been sorted out. There are also related legislations in professional bodies and their regulatory Acts that have to be amended in order to provide for suitable regulatory system to reflect the changes that have been made in the law. That will be done in the next few months. We have already introduced some related Bills in the Parliament. Once that is over, we can look for greater advocacy for LLP. Within the Indian structure and the Central–State relationship, there is a large area of enterprises which have little to do with Centre. Such enterprises will now also benefit from the Centre's policy.

Q13. IFRS implementation is today the much talked issue which is being accorded high priority by the Government as well. What is your view on the implementation schedule and how to facilitate the same?

Ans. As regards IFRS, we are ahead of some countries and behind some other countries. We obviously have to give high priority to convergence with IFRS. I think it is sensible that we have staggered its implementation in a manner that is suitable for our own business landscape. There are many companies who are preparing for it for quite some time. But there are also smaller companies, where compliance issue is still worrying. But IFRS implementation in such smaller companies can be delayed for some time so that they can come on board later. Our banking system is already in the process of major consolidation. Therefore, we have given longer time to banking and insurance. What is commendable with regard to convergence with IFRS is that all the stakeholders are on board.

After the software revolution in our country, what we need today is to unlock the huge potential of our accountants for the world, which will be required in larger and larger number, particularly when IFRS is accepted globally. It is good to note that we are perhaps among few countries that are talking about convergence rather than adoption. This is how we can establish Indian models in global context. We also feel encouraged that a country like Japan has approached us for partnership in moving forward on IFRS issue.

Q14. ICAI has been recognised as the nodal agency for imparting training on IFRS. How do you see the role of the ICAI as the facilitator of convergence to IFRS in India?

Ans. We work closely with ICAI and admire the work done by ICAI. I have made it clear that if the ICAI wants any advocacy or any support in any part of the country or the world, we are there for ICAI. We are willing to be your partners and to push your ideas. With an outstanding performance record of the ICAI, I would like to see ICAI taking the lead. This is the reason why they are the nodal agency for what I call the accountancy revolution in India.

Q15. Indian corporate has undergone major transformation. The recent mega foreign acquisition deals involving Bharti Airtel, Tata Chorus, Godrej, etc. reflect Indian corporate's increasing global outlook. What your ministry can do or what really needs to be done, including in terms of legal framework, to help our corporate sector go global?

Ans. Well, there are two-three problems in going global. We have to very carefully look into these problems or important issues and that's why we are still to arrive at decisions regarding them. We are sensibly keeping those decisions in reserve. These issues include financial issue; exchange issue. We have strong nationalistic feelings and similarly other countries too have nationalistic feelings. We will have to find a common ground there. Our banking system is too small to help our companies going global in a big way. I think our banking system has to keep pace with the opportunities that are opening up. Similarly

My congratulations to ICAI for completing 61 years. I acknowledge the good work that ICAI has done… Indian accountancy profession is among the professions that we would want the world to look at. The world must recognise Indian accountancy profession's special ability and talent. We are there to ensure that.

our accountancy firms have to keep pace with opportunities that are opening up in industry and other sectors across the world. We cannot expect to capture globe with only our industry with our accountancy partners and banking partners looking dwarf in front of global giants in the field of accountancy and banking. We have a long way to go there. My Ministry and I are committed to take up this cause, particularly with respect to the field of accountancy. That's our mandate. We want Indian accountants grow big. But for that, our accountancy professionals have to unleash their imaginations to push their way in global accountancy arena. But India has pushed its way everywhere and I don't see any reason why our accountancy profession can't do it.

Q16. How do you visualise Indian accountants going global. What needs to be done for that? Will it require some sort of restructuring in the accountancy profession in the country?

Ans. We need more discussions on this. On this front, I would not like to come up with half-baked ideas. This is something that I have indicated very clearly to the Council of ICAI. We have to do more workshops, seminars and meeting on this. You have to come up with lot of papers, lot of concrete ideas. We will have to do a lot of brainstorming and then have to put down a roadmap of deliverables. We are there to support you. However, the age of protectionism is gone. Any implicit or explicit protectionism will not work. But we are there to give you a head start. And then you will have to lock horns with the challenges and hope to score. If we can score globally in other sectors, there is no reason why we can't score in the field of accountancy and banking.

Q17. How do you view the Competition Commission of India (CCI)? What has been the level of your Ministry's backing to the Commission?

Ans. The CCI is an autonomous body. My ministry can give them policy directions, but otherwise, they have to function on their own. Competition jurisprudence of our country has to be developed quickly in a way that it gets endorsement by the people of the country. It must be in a language that is understood. I say the same for everything that we do in the corporate sector. We must use the language and medium that is understood by the *aam aadmi* because ultimately *aam aadmi* is the customer. They have a stake and we should make them feel that stake in corporate India. They must come in the capital markets in a bigger way. They must understand what we are doing, how we are protecting them and facilitating opportunity to compete in a manner, which is fair and transparent. And I think this is what the Competition Commission of India does. We are here to bring to the Commission's knowledge anything that needs to be addressed and we are certainly here to take note of their decisions. But they have to function autonomously and develop jurisprudence which is direly needed in our country.

Q18. Would you like to elaborate on next major move or event of the Ministry of Corporate Affairs?

Ans. We will organise Investor Awareness Week, hopefully from 15th to 21st July this year. Every year this is going to be the stepping stone to the larger event that is India Corporate Week. Investor education is going to be fundamental base of what the corporate sector is going to do. We will be putting a great deal of emphasis on investor education. I have announced 3000 workshops for investors' education by our partner stakeholders, and I am given to understand that we may exceed the 3000 mark. Corporate India should not be confined to Board Rooms but must become part of our homes, no matter how small or big, in every nook and corner of the country. We will be make special trips to Srinagar and Shillong for the purpose in the coming months.

Q19. CAs in India have made their strong presence felt in every walk of economic life of the country. What is your message to the accountancy profession, particularly on the occasion of completion of 61 years by the ICAI?

Ans. My congratulations to ICAI for completing 61 years. I acknowledge the good work that ICAI has done. You have faced a lot of challenges… there have been good times, there have been bad times. Indian accountancy profession is among the professions that we would want the world to look at. The world must recognise Indian accountancy profession's special ability and talent. We are there to ensure that. ■

words of wisdom


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2½ ANNAS

RU URGES STAY OF H-BOMB TESTS

Standstill Pact Suggested

FOUR - POINT 'SAVE HUMANITY' PLAN

INSTITUTE HQ. OPENED

Safeguard Interests Of Investors

PRESIDENT'S APPEAL TO CHARTERED ACCOUNTANTS

By A Staff Reporter

Mr. Ali's Request To Mr. Nehru

Indo-Pondicherry Travel

DELHI INTRODUCES PERMIT SYSTEM

Punjab Bans Dowry

Turco-Pak Entente

SIGNING IN KARACHI

Abrogation Of U.S.-Pak Pact Demanded

VISA SYS WITH

New East Be Firs

Radio-Active Particles May Affect India

GENERAL SOKHEY'S VIEW

- **From the Past Presidents of ICAI**
- **Quotable Quotes**
- **What the Leading Lights Said**

The IFRS Challenge

There is perhaps no single technical challenge presently facing the profession which is more important than the convergence with International Financial Reporting Standard (IFRS). This challenge, therefore, needs a response which is well-orchestrated well-calibrated and which is responsive to the concerns of industry and members of the profession.

CA. Y. H. Malegam
(The author is Past President of ICAI and presently the Chairman, National Advisory Committee on Accounting Standards)

In July 2009, with a view to designing a definitive roadmap for convergence with IFRS and co-ordinating the process, a Core Group was set-up under the chairmanship of the Secretary, Ministry of Corporate Affairs with participation from RBI, SEBI, IRDA, ICAI, NACAS and industry representatives. Further, two sub-groups were also constituted. The first has the responsibility to identify the various legal and regulatory changes required for the convergence and to prepare a roadmap for achieving the same. The second has the responsibility to interact with various stakeholders of industry to understand the concerns raised on the issue of convergence with IFRS, identify problem areas and ascertain the preparedness of the industry for such convergence. Both groups have completed their initial tasks.

Convergence with IFRS has created understandable nervousness both in industry and the profession. Without underestimating; the problems involved, it is perhaps true to say that much of this nervousness arises out of a fear of the unknown. It is, therefore, necessary to have a clear understanding of the issues involved and the steps which are necessary in this connection.

Fundamental to this understanding is an awareness of the manner in which Indian accounting standards are formulated. The standards are prepared after due process by the Accounting Standards Board (ASB) of the Institute of Chartered Accountants of India and submitted for review to the National Advisory Committee on Accounting Standards (NACAS) which in turn recommends them for prescription by the Government under Section 211(3C) of the Companies Act, 1956. The standards formulated by ASB are anchored on the standards issued by the International Accounting Standards (IASB) and the differences between the Indian accounting standards and the international standards are kept to a minimum. In fact NACAS has mandated that IASB should identify these differences and give a rationale for the same. This mandate ensures that there is pressure on ASB to confine differences only to matters which are unavoidable and also that understanding of the rationale for the differences enables action to be taken to remove the same. The fact that industry and the profession have had no difficulty in applying Indian standards so formulated should give us confidence for the future.

The differences between international standards and Indian standards fall in three broad groups namely (a) different requirements of the Companies Act and Schedule VI (b) differences in language and/or additional guidance provided in Indian standards and (c) differences in substance. Action has already been taken to identify the conflicting requirements in the Companies Act and Schedule VI and steps to make necessary amendments have already been taken. The differences in language and additional guidance do not affect convergence and can continue to remain. What, therefore, needs to be addressed are the differences in substance.

This issue has been somewhat complicated by two factors. First, the international standards on which the Indian standards are based have themselves been the subject matter of extensive revision. This has necessitated consequent revision in the Indian standards. This task has almost been completed and most of the revised standards have been exposed for public comment. Second, in the revisions made by IASB and the new standards which have been issued, recognition has been given to new concepts which have fundamentally altered the basis of recognition and measurement.

Principally, there are two new concepts which need to be addressed. First is the concept of fair value. A number of international standards, mainly (a) IFRS 2-*Share-based Payments* (b) IFRS 3-*Business Combinations* (c) IAS 20-*Government Grants* (d) IAS 39-Financial *Instruments* and (e) IAS 41-*Biological Assets* provide that certain assets and liabilities have to be measured at their initial recognition and also at their subsequent measurement at their fair value and not at their cost. There are also a number of standards where an option is given to use the fair value method or the cost method.

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The terms used to define fair value in individual international standards have not been consistent and, therefore, IASB has recently issued a definition of fair value which defines fair value as *"the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date".*

The definition, therefore, emphasises three fundamental characteristics of fair value namely (a) an exit price (b) the existence of an active market and (c) a transaction in the active market. But it is also recognised that an active market may not always exist for all items of assets and liabilities which are required to be valued at fair value. Consequently provision is also made for a fair value hierarchy at three levels of inputs for determination of fair value as under:-

(a) Level 1 inputs: quoted market prices to be used when an active market exists.

(b) Level 2 inputs: observable inputs to be used when an active market does not exist. For example, where a security of 15 years maturity is to be valued at fair value for which an active market does not exist, its value can be derived by suitable adjustment to the quoted price of a security of 10 years maturity for which a market does exist.

(c) Level 3 inputs: unobservable inputs developed using the best information available. For example, if an asset to be valued has no active market, it is valued using acceptable valuation techniques such as discounted cash flow method.

A second concept which needs consideration is the concept of time value of money. This concept requires that where the expected date of recovery of an asset or payment of a liability is deferred, it is recorded not at its face value but at its discounted value using an effective rate of interest. Some of the assets and liabilities where this concept is used are in the recording of deep discount bonds, deferred receivables and payables, long-term borrowings and post-retirement benefits. Rules have been prescribed for the method of determining the effective rate of interest.

There are also a number of international standards which use the concept of substance over form. For example, redeemable preference shares are considered to be liabilities and not share capital; leases are distinguished between operating leases and financial leases; employee loans at concessional rates are deemed to include an employee cost equivalent to the interest forgone; and convertible instruments are bifurcated into debt and equity.

A further change in concept which needs consideration is the concept of Comprehensive Income as contained in IAS 1–*Presentation of Financial Statements*. Until this standard was issued items of income and expense were recognised in the profit and loss account and items not so recognised were presented in a statement of changes in equity. The significant change which has been made is that (a) an option is given to present income and expenditure either in a single statement of comprehensive income or in two separate statements in income statement and a statement of comprehensive income. However, in either case, "other comprehensive income" has to be separately disclosed.

"Other comprehensive income" is a sort of dumping ground for income and expenditure which is not disclosed as a part of the profit and loss account. Some of the major items included in "other comprehensive income" are

One of the major areas of controversy has been the valuation of liabilities at fair value and the treatment of changes in fair value. These changes can arise either through changes in the interest rate structure or changes in the rating of the entity which has assumed the liability.

(a) gains or losses on revaluation of assets (b) actuarial gains or losses on employee retirement plans (c) gains or losses on translation of financial statements of foreign operations (d) gains or losses on re-measuring certain financial assets and (e) gains or losses on hedging instruments.

There are also two specific accounting standards which need attention. First, there is IFRS 3 – *Business Combinations.* This standard provides that:

(a) In the case of an amalgamation of two companies, irrespective of the legal form, it becomes necessary to determine who will control the amalgamated entity and who, therefore, should be identified as the acquirer;
(b) The date of acquisition is the date when the acquirer effectively acquires control and may not necessarily be the appointed date as specified in the scheme of amalgamation;
(c) The assets and liabilities including contingent liabilities acquired have to be recognised and recorded at their fair value and not at their book values; and
(d) Where the aggregate fair value of the net assets acquired is less than the purchase consideration or face value of the shares issued, the balance is treated as goodwill but where such value exceeds the value of the purchase consideration or the face value of shares issued, the excess is treated as a gain arising on a bargain purchase and taken to the profit and loss account.

The second standard which needs attention is IAS 39–*Financial Instruments.* This standard has evoked considerable criticism both because of its complexity and also because of its perceived effect on the presentation of financial information. IASB has, therefore, embarked upon a revision of this standard in three phases as under:

Phase 1	Classification an Measurement;
Phase 2	Amortised cost and Impairment;and
Phase 3	Hedges.

In Phase 1, financial assets have been classified into two broad groups namely those which are to be recognised at amortised cost and those which are to be recognised at fair value. Those instruments which have the inherent characteristics of a loan, namely, the recovery of interest and the repayment of the principal, are to be recognised at amortised cost and all other instruments are to be recognised at fair value. Thus, all equity instruments have to be recognised at fair value. Hybrid instruments need not be bifurcated and must be considered as a whole. For instruments which are recognised at fair value, there is an option to recognise subsequent changes either in the profit and loss account or in "other comprehensive income".

One of the major areas of controversy has been the valuation of liabilities at fair value and the treatment of changes in fair value. These changes can arise either through changes in the interest rate structure or changes in the rating of the entity which has assumed the liability. Under the present international standard, if the rating of the issuer of the debt instrument deteriorates, the value of the instrument gets reduced and the issuer restates its liability at the lower value and books a gain in its profit and loss account. This has created a public outcry and while addressing this problem, IASB has issued an exposure draft which provides that this gain should be recognised not in the profit and loss account but in "other comprehensive income". This is a partial solution which is unlikely to resolve the controversy.

For phase 2 which deals with amortised cost and impairment, IASB has issued an exposure draft which is exposed for public comment. In substance, what is proposed is that:-

a) all upfront costs should not be written off but should be amortised over the useful life and treated as part of the amortised cost of the asset.
b) the impairment loss should be recognised on the basis of 'expected loss" and provided for over the useful life of the instrument and not provided for on the basis of the "incurred loss" model.

While there can be no quarrel with these basic propositions, there are certain aspects of the exposure draft which may need reconsideration. Firstly, the draft provides no guidance in respect of "open portfolios" that is, for instruments which have no finite useful lives. Secondly, the processes for determination of impairment through the "expected loss" route are too complicated and need simplification.

As regard phase 3, namely hedges, the exposure draft of the revised standard is yet to be issued.

The above discussion would make it clear that the process of convergence to IFRS will not be easy. It is necessary in this context to re-examine the rationale for the convergence to IFRS. Two main arguments in favour of such convergence have been advanced.

First, in a globalised environment, global accounting standardisation through convergence would provide greater comparability for investors across firms and industries on a global basis. This is an important consideration in the context of the fact that Indian companies are increasingly accessing foreign capital, acquiring foreign enterprises, competing internationally and bidding for contracts abroad. This is also important since accessing foreign capital often lowers the cost of capital. Secondly, adherence to international standards is a pre-requisite for companies which wish to list in a foreign stock exchange and convergence with international standards will reduce costs by avoiding the need for multiple financial statements.

At the same time, it has also been argued that only a small proportion of Indian companies are in a position to obtain the above benefits and this cannot be the rationale for imposing convergence on those who will not directly benefit from convergence. The answer to this is a third benefit which has often not been adequately understood.

International accounting standards are the result of a rigorous consultative and exposure process which captures the best thinking on the subject globally. Therefore, irrespective of the fact that most countries have converged their accounting standards with international standards, these standards represent a model which is worthy of emulation. There are of course national considerations which international standards often cannot capture and in an ideal situation we should be able to adopt international standards as a model but yet not fully converge. This is not possible for entities which wish to secure the benefit of globalisation which we have considered earlier, but should be possible for entities which are not vitally affected by globalisation.

Therefore, in proposing a roadmap for convergence, it is proposed to have two sets of specified accounting standards namely:

a) Part I – Applicable to companies which are listed in India or abroad and which have a net worth on 31st March, 2009 or thereafter exceeding Rs. 500 crore; and
b) Part II – Applicable to unlisted companies having a net worth on 31st March, 2009 or thereafter not exceeding Rs. 500 crore.

Part I standards will as far as possible be fully convergent with IFRS with a minimum of unavoidable carve-outs. Part II standards will be substantially convergent with IFRS but may have some carve-outs to obviate significant difficulties in implementation. These carve-outs will mainly cover areas such as fair value accounting and time value of money. Within the Part II standards there will be further exemptions for Small and Medium Enterprises (SMEs).

A critical factor in the convergence to IFRS is the application of IFRS I – *First-time Reporting of International Financial Reporting Standards* for which a corresponding Indian accounting standard (Ind-AS) 41 has been issued for exposure. This standard requires the preparation of an opening balance sheet after considering the following:

(a) recognition of all assets and liabilities which are required to be recognised under IFRS.
(b) derecognition of all assets and liabilities which cannot be recognised under IFRS.
(c) reclassification of items required under IFRS
(d) application of IFRS to the measurement of assets and liabilities.

If full effect were to be given to all these factors, a number of retrospective adjustments would be required to the assets and liabilities before convergence with IFRS. To simplify this process, IFRS I gives a number of exceptions.

The major exceptions are as under:

(a) For property, plant and equipment there is the option to use the concept of “deemed cost”. This permits the carrying cost of the asset to be substituted by its “fair value”. This concept is useful when the cost includes elements like exchange gains/losses on borrowings in foreign currencies which under IFRS cannot be capitalised and which element would otherwise need to be removed;
(b) retrospective adjustment need not be made for assets and liabilities recognised as a result of business combinations;
(c) in respect of retirement benefit plans, unrealised actuarial gains or losses can be recognised using the corridor approach;
(d) where there are cumulative unrealised exchange gains or losses on translation of non-integral foreign subsidiaries, these can be reset to zero;
(e) where a subsidiary will converge to IFRS at a later date, adjustment to IFRS need not be made for conformity with IFRS on consolidation; and

“One of the major concerns often expressed is the impact of convergence to IFRS on the computation of taxable income. The Core Group is conscious of this concern and accordingly a sub-group has been formed including representatives of the taxing authorities to address this concern. It is hoped that a constructive and fair solution will be evolved.”

(f) lease accounting provisions of IFRS can be applied prospectively.

It had been decided by the Government and the Institute that Indian accounting standards would coverage to IFRS on 1st April, 2011. Consequent on the revisions in international standards, revisions have been and are being made in Indian standards. However, since these standards are inter-linked, these revised standards can only come into force from 1st April, 2011. Recognising the difficulty in implementing these revised standards and in order to give sufficient time to companies for implementation, the following roadmap has been proposed.

(a) Companies which fulfill the following criteria will prepare their opening balance sheet on 1st April, 2011 in conformity with Part I standards:

i) Listed companies which are part of NSE Nifty 50 or BSE Sensex 30

ii) Companies (whether listed or unlisted) which have a net worth as on 31st March, 2009 or later of Rs. 1,000 crore.

iii) Companies whose shares or other securities are listed on stock exchanges abroad as on 1st April, 2011;

(b) Listed companies which have a net worth in excess of Rs. 500 crore as at 31st March, 2009 or later and are not covered by (a) above will prepare their opening balance sheet on 1st April, 2013 in conformity with Part I standards. In the meantime they will comply with Part II standards;

(c) Unlisted companies which have a net worthy in excess of Rs. 500 crore as on 31st March 2009 or later and are not covered by (a) above will prepare their opening balance sheet on 1st April, 2014 in conformity with Part I standards. In the meantime, they will comply with Part II standards.

(d) Unlisted companies which have a net worth which does not exceed Rs. 500 crore as on 31st March, 2009 or later will comply with Part II standards.

Separate roadmaps have been prescribed for banks, NBFCs and insurance companies.

The consequences of convergence to IFRS will not be restricted only to the manner in which financial statements are prepared and presented. There are also other implications which need to be recognised. The most important of these are as under:

(a) There will be resultant changes in critical financial ratios such as debt/equity, return on capital, interest coverage etc. which can trigger breach of covenants in loan agreements.

b) Employee remuneration packages which are based on financial performance may need to be reviewed.

c) The computation of distributable profits and consequently of permissible dividends may undergo a change.

d) Almost certainly IT packages will need to be modified particularly in the case of banks, other financial institutions and insurance companies.

e) In the year of change, an important consideration will be the manner in which financial results are communicated to the analysts and to the market.

“No Professional can remain static. He has to update his knowledge and the Institute has to ensure that the continuing education is provided by lecture meetings, seminars and conferences. No professional can succeed if he does not maintain discipline in his life. It is in this context that the CA Act provides for maintenance of certain ethical standards and the Institute is authorised to take disciplinary action against erring members. Such action is provided for in respect of behaviour of a member, whether in his professional capacity or in his personal capacity.”

One of the major concerns often expressed is the impact of convergence to IFRS on the computation of taxable income. The Core Group is conscious of this concern and accordingly a sub-group has been formed including representatives of the taxing authorities to address this concern. It is hoped that a constructive and fair solution will be evolved.

Convergence to IFRS does not merely involve adapting Indian accounting standards suitably. What is perhaps equally, if not more important, is the ability to implement these amended standards. There is, therefore, a major task to impart knowledge and training both to the preparers of these financial statements and to the auditing profession. This responsibility has been assigned to the Institute, which has already embarked on the task.

The move to converge with IFRS is a momentous event in the history of the profession. Toynbee in his study of civilisations has shown that the major civilisations of the world evolved when the inhabitants of a region were faced with such overwhelming challenges posed by a changing environment that they needed a superhuman response to overcome these challenges. Convergence with IFRS is perhaps one such challenge. It provides to the profession the opportunity to demonstrate its strength and its resilience and the nature of its response will ultimately impact upon the level of public confidence which is the final arbitrator for the continued existence of the profession. ■

Indian Accountancy Profession Over the Years

The origin of the accounting profession in India can be traced to over one and a half century. It formally starts with the Indian Companies Act, 1866. The author discusses the background of the Indian accountancy profession in the light of the various enactments and laws in India during the British Rule. He then goes on to describe the formation of an autonomous body under an Act of Parliament (The Institute of Chartered Accountants of India), which was formed to regulate the accountancy profession in India. He also explains the philosophy of the CA profession. Then the author describes various initiatives taken by the Institute: education & training, professional development, accounting and auditing standards, professional ethics, international harmonisation. Towards the end, he evaluates how far we have been able to achieve according to the vision of the profession stated by the first President of the Institute, CA. G. P. Kapadia.

CA. P. N. Shah
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Background

The origin of the accounting profession in India can be traced to over one and a half century. It was in 1866 that audit of accounts of limited companies was made mandatory by the Indian Companies Act, 1866. There was no regulatory body set up at that time to prescribe qualifications for persons who could audit the account of a company. The only requirement was that the auditor should be independent person not connected with the Directors, their relatives or activities of the company.

The Companies Act of 1866 was replaced by the Indian Companies Act, 1882. This law was amended from time to time but no specific qualifications for an auditor were prescribed. The Companies Act, 1913, replaced the 1882 Act. It was at this stage that due to changing economic conditions and increasing industrial and commercial activities in which public interest was increasing that the government started thinking of strengthening the system of audit of accounts of companies. Local governments were authorised to introduce educational courses to ensure that persons appointed as auditors acquired qualifications for conducting audit of accounts. The then Government of Bombay formulated a scheme for education and training of entrants to the profession of Accountancy. This scheme comprised a qualifying examination for Government Diploma in Accountancy (G.D.A.) and articleship with an approved accountant in practice for three years. The qualification of B.Com was also recognised for this purpose. The Companies Act, 1913 was replaced by the Companies Act, 1956. By this time, the Institute of Chartered Accountants of India was formed and the role of CAs was well recognised.

It was due to the efforts made by accountants in practice that, in 1932, the "Auditors' Certificate Rules, 1932" were notified by the government. These Rules provided for setting up the Indian Accountancy Board (Board). In the initial years the Board was constituted by some accountants in practice and some government nominees.

This Board framed rules for practical training (Articles with practicing accountants for 3 to 5 years), education, examination, scope of professional practice, maintenance of good professional conduct, etc. It also framed rules for awarding diploma of "Registered Accountants" (R.A.) and granting certificate of practice to persons who qualified after passing examination, completed practical training and enrolled as members. Initially, there were only about 450 R.As who were members of the profession.

It was in 1939 that the Rules were framed introducing the elective principle for constitution of the Board. Notification was issued on 1st July, 1939, for election of 14 members of the Board. With this change, the Board consisted of 14 elected members and 8 members nominated by the Government.

Formation of the ICAI

Members in practice were not satisfied with Government domination over the Board and the designation 'R.A.' as they had to compete with Chartered Accountants and Incorporated Accountants from U.K and other countries. It was in March, 1936, that organised attempts were made for setting up a separate autonomous institute and designation to be changed to "Chartered Accountant". After persistent efforts by elected representatives on the Board and other prominent members of the profession, ultimately, the Chartered Accountants Bill was introduced in the constituent Assembly of India in 1948 and enacted as the Chartered Accountants Act, w.e.f. 1st July, 1949. The present Institute of Chartered Accountants of India, thus, came into existence on 1st July, 1949, as an autonomous body with powers to regulate the profession of accountancy in India. To start with, there were 1685 members who were enrolled as the first members of the Institute. The membership has grown over the past more than 60 years to over 1.64 lacs as at 1.4.2010. In 1949-50 there were only 257 students studying the C.A course. The student population at present is over 6 lacs.

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The CA Act provides that the management of the affairs of the Institute shall be with the Central Council. All the statutory functions of the Institute are assigned to the council. In the initial years, the council was constituted of 20 members of whom 15 were elected and 5 were nominated by the Government. In 1959, with the increase in Membership, this number was increased to 30 of whom 24 were elected and 6 were nominated. In 2006, this number has been further increased to 40 members of whom 32 are elected and 8 are nominated. The term of the council is for 3 years. Elections are held once in 3 years.

The first meeting of the council was held on 15th August, 1949. The meeting elected Shri G.P. Kapadia as President and Shri G. Basu as Vice-President of the Institute for one year. They were reelected for two more years. At the first meeting of the council, Shri Kapadia made the following statement.

"No profession can aspire to progress unless it has a vision and sets service to the community as its objective. It has also to be free from restraints and allow for the economic advancement of its entire membership. Its resilience and capacity to respond to the changing situations and growing demands on it will determine its continued existence and growth. Technical excellence in the performance of its functions and observance of the highest in Professional Ethics constitute the foundation on which its future can be built up."

All successive Presidents of the Institute and Council Members have been functioning quite mindful of these cardinal considerations.

When India adopted its Constitution on 26th January, 1950, and almost all Princely Native States merged to form the Union of India, Auditors who were granted Certificate of Practice by such states were absorbed within the fold of the Institute and were granted membership with certain restrictions about conduct of audit of accounts of companies.

Soon after the ICAI was formed, some members started representing the Government that separate Institute be formed for Cost Accountants and Company Secretaries. There was resistance from large number of members and the idea of splitting the profession in this manner was not acceptable to them. However, the Government took the decision to form two more Institutes viz. (i) The Institute of Cost and Works Accountants of India and (ii) The Institute of Company

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Secretaries of India. The legislation for this purpose was passed in 1959, effective from 23.5.1959, establishing separate Institute of Cost Accountants. The legislation establishing Institute of Company Secretaries was passed in 1980, effective from 1.1.1981. Thus, by splitting the profession into three parts, (i) the field of audit of financial records was reserved for Chartered Accountants, (ii) the field of Audit of Cost Records was reserved for Cost Accountants and (iii) the field of Secretarial Audit was reserved for Company Secretaries. Apart from this reservation, other professional services such as Management Consultancy, Tax Advisory Services, Internal Audit, Financial Services, Accounting Services, Maintenance of Cost Records, Secretarial Records etc. can be rendered by Members of all the three Institutes.

It may be noted that the period from 1949 to 1972 can be described as the formative years when the Institute and its members had tried to consolidate their position in the ever demanding society. During this period, the membership increased at a slow pace from 1,685 to over 12,000. The student population had also grown at a slow pace from about 257 to over 4,000. The period from 1973 onwards can be considered as a period during which the activities of the Institute have grown beyond one's imagination. As stated earlier, the membership has crossed the figure of 1.64 lacs and the students serving articles/audit service are about 3 lacs.

Philosophy of Accountancy Profession

The users of professional services require an assurance that the members of the Institute, whose services are retained, are persons of character and integrity as well as competent and knowledgeable to render such services. In order to provide this assurance, the Institute has to ensure that the education and training of students adequately match with the requirements of the society. The Institute has also to maintain high standards in its examinations and ensure that proper professional opportunities are made available to successful candidates who ultimately become members of the Institute. No professional can remain static. He has to update his knowledge and the Institute has to ensure that the continuing education is provided by lecture meetings, seminars and conferences. No professional can succeed if he does not maintain discipline in his life. It is in this context that the CA Act provides for maintenance of certain ethical standards and the Institute is authorised to take disciplinary action against erring members. Such action is provided for in respect of behaviour of a member, whether in his professional capacity or in his personal capacity. No Institute can accomplish this task unless it has adequate powers and efficient administration.

Our Institute has always been playing a proactive role in encouraging our members to maintain high standards in their professional or personal conduct. For this purpose, the Institute has identified seven fundamental principles which a CA should remember while conducting his personal as well as professional activities. These principles are (i) Integrity, (ii) Objectivity, (iii) Independence, (iv) Confidentiality, (v) Technical Standards, (vi) Professional Competence and (vii) Ethical Behaviour. A professional who keeps these seven principles before him and adopts them in his day to day personal as well as professional conduct can achieve great success in his professional practice. One may say it is difficult to adopt all these principles in the present day environment. However, if a professional wants to have peace of mind and get inner satisfaction of having served the profession and the society at large, he will have no option but to follow the path identified by the above principles enunciated by our Institute. Members of the Institute, in India as well as abroad, whether they are in public practice or in Industry, always try to imbibe this philosophy of the C.A profession.

Education and Training

The Institute has been making continuous efforts to strengthen education and training of the students as it is considered as the backbone of the profession. The basic features of education and training have remained the same over the years and these can be divided under two broad heads namely :

- Theoretical Education, and
- Practical Training

In the field of theoretical education the Institute has been reviewing the system at periodic intervals to cater to the needs of the society. With the tremendous economic development in the country and globalisation of economy, the attempts are made to update the theoretical knowledge of the students studying C.A course. To meet the ever increasing needs of the society, the C.A course now includes, besides traditional subjects of Accounting, Auditing, Cost Accounting, Taxation Laws, Corporate Laws and Professional Ethics, subjects like Information Technology, Management Accounting, Strategic Financial Management, etc.

C.A students have to take theoretical education imparted by the Board of studies set up by the Institute through the distance learning method.

The Institute also conducts refresher courses in various cities where eminent members of the profession give classroom education. There are some recognised coaching classes which also conduct classes for imparting such education.

The compulsory provision of practical training is an integral feature of the scheme of education and training for the chartered accountancy course. Such a provision, indeed, goes much deeper to the roots of professional ethics and outlook and is the foundation of the Institute's high standing. The provision of practical training concurrently with theoretical education in professional subjects exposes students to diverse practical situations and enables them to acquire skills and expertise which this profession requires. A distinct characteristic of a chartered accountant is his proven ability to apply his theoretical knowledge to practical situations - a skill which he acquires largely through the practical training which he receives before being admitted as a member of the Institute. Since the inception of the Institute, the provision of compulsory practical training has been central to overall scheme of education and training.

Such practical training is imparted by CAs in practice who are entitled to impart such training. The number of Articled trainees a member can train is fixed by the Institute from time to time. The number of years for which a student has to undergo training is 3½ years, as fixed by the Institute. Apart from this, the student has option to take training in an industrial establishment for one year during the period of Articles. Further, the student has to acquire practical knowledge about communication skills and attend Computer Training classes for a specified period.

One of the obligations of the Institute under the C.A Act is to hold examinations to test the theoretical and practical knowledge of students. The system of examination is being reviewed at periodical intervals. Under the present system a student has to first qualify by passing Common Proficiency Test (CPT) before starting the practical training. Thereafter, during the period of his articles he has to pass two examinations viz. Professional Competence Examination (PCE) and Final Examination. He can enroll as a member of the Institute after passing these examinations and completing his articles.

It is not always that all students qualify for becoming members of the profession. To provide opportunity to those unfortunate students who have completed the practical training but not been able to pass both the examinations of the Institute, recently an opportunity has been provided by the Institute to them by awarding a Certificate of "Accounting Technician". This certificate will enable such students to work as accountants in industries as well as C.A Firms.

The members of the Institute who desire to acquire post-qualification education can also study different courses started by the Institute. These courses are conducted for (i) Management Accountancy, (ii) Corporate Management, (iii) Tax Management, (iv) International Trade Laws and WTO, (v) Information Systems Audit, (vi) Insurance and Risk Management, (vii) CPE Course on Computer Accounting and Auditing Techniques, and (viii) ERP Courses on SAP FA&MA Module, Microsoft Dynamics NAV. The Institute awards Diploma for each course to successful candidates.

Professional Development

CA has to play a very useful and positive role in the society. With rapidly changing economic conditions, over the years, the duties and responsibilities of our members, whether in practice or industry, witnessed substantial increase in diverse areas. Institute, as always, has been alert and vigilant about the continually changing environment and has responded positively by providing necessary guidance to ensure that its members continue to discharge their duties to render professional services of the highest standard in the larger interest of the society. The Institute has taken several steps to expand the scope and content of the professional services which our members can render both on their own volition and in active collaboration with other professional and regulatory bodies and the government.

Professional development is an absolutely essential activity for the existence of the profession, aimed at identification of not only new and emerging opportunities to serve the society in a better manner but also to define and confine the scope of activities so as to reap maximum benefits. No doubt, the qualities expected of any individual professional cannot be developed overnight or merely by attending conferences and seminars. Thus, the Institute always envisaged a well planned and co-ordinated effort involving participation by all sections of the Institute membership. Accordingly, a multitude of steps initiated by the Institute include formation of study groups in close cooperation with different professional and regulatory bodies,

"It may be noted that the period from 1949 to 1972 can be described as the formative years when the Institute and its members had tried to consolidate their position in the ever demanding society. During this period, the membership increased at a slow pace from 1,685 to over 12,000. The student population had also grown at a slow pace from about 257 to over 4,000."

nominating Council Members on several government bodies, issuance of large number of publications for the guidance of members, assisting government and other statutory authorities by submission of expert comments on various corporate legislations, finance bills and a host of other diverse matters affecting professional development, organising theme – based seminars, workshops and residential programmes, and reviewing of education and training requirements from time to time.

An analysis of the developments over the years clearly reflects that chartered accountants are being increasingly expected to assume newer responsibilities in areas which hitherto were considered as beyond the confines of professional practice and competence. While the profession is legitimately proud of the confidence reposed in the capacity of its members to discharge these new responsibilities, the Institute has an obligation to ensure that we do not hold out a promise beyond what we can perform. This is a vital aspect of professional development and is well-embedded in the overall philosophy of the Institute since an indifferent or incompetent service can affect not merely the individual reputation of the member concerned but also the reputation and image of the entire profession.

In this context, the Institute has always recognised the significance of continuing professional education (CPE) for its members and pursued it as one of the avowed objectives so as to ensure that its members attain and maintain the quality of knowledge and service expected of them. Continuing education is a joint responsibility of both the individual members as well as the professional body to which they belong. A professional Institute holds out a generalised promise of proficiency with regard to its members and it cannot absolve itself of the responsibility regarding their continued technical proficiency. It is with this end in view that the Institute has taken upon itself the task of providing continuing education to its members on a regular and systematic basis. The Institute has also paid sufficient attention on keeping members of the Institute current in their knowledge. It has shown awareness that with passage of time, professional knowledge and skill tend to undergo a process of obsolescence and, therefore, all facilities should be made available to rectify the situation. The subsequent developments over the years only confirm the accelerating trend in this direction. The notable trends include organisation of chain seminars, publication of uniform background material, setting up of computer centres, establishment of CPE Directorate, issue of research publications, imparting education through teleconferencing, etc.

It is significant to note over the years, due to efforts of the Institute, the opportunities for rendering professional services by our members have increased. Besides, the reserved area of service viz. Audit of Financial Statements of Corporate Bodies, Tax Audit under the Income tax Acts, Audit under other tax laws, Audit of Co-operative Societies, Trusts, Non-corporate entities, Stock Brokers, Non-Corporate Bank Borrowers, etc., our members are called upon to render services in the fields of Internal Audit, Book Keeping, Advice on Taxation Matters, Management Consultancy, Insurance claims, Secretarial Work, Information Technology, Financial Sector Service, Environment Audit, Certification of Special Purpose Statements, etc. Our members also render professional services as Independent Directors, Liquidators, Arbitrators, Executors, Trustees, Advisors for Risk Management, Valuers, CFOs, Professors in colleges, IIMS, Business Schools, etc.

No Professional can remain static. He has to update his knowledge and the Institute has to ensure that the continuing education is provided by lecture meetings, seminars and conferences. No professional can succeed if he does not maintain discipline in his life. It is in this context that the CA Act provides for maintenance of certain ethical standards and the Institute is authorised to take disciplinary action against erring members. Such action is provided for in respect of behaviour of a member, whether in his professional capacity or in his personal capacity.

In order to ensue that the members render quality services to the community at large, the Institute has appointed a Peer Review Board. The reviewers, as trained by the Board, visit offices of various C.A Firms and examine the working papers for audits of selected clients. They submit their report to the Board who will advise the members as to what improvements are required in their procedures so that their services to their clients improve. This process started by the Peer Review Board is now given statutory support by amendment of the C.A Act in 2006, which provides for setting up of a Quality Review Board.

Accounting and Auditing Standards

Our Institute being a member of International Federation of Accountants (IFAC) and International Accounting Standards Board constituted an Accounting Standards Board (ASB) in 1977. ASB has since then issued 32 Accounting Standards on various topics such as *Valuation of Inventories, Depreciation Accounting, Construction Contracts, Revenue Recognition, Borrowing Costs, Impairment of Assets, Accounting for Fixed Assets, Financial*

Instruments, etc. Recently, the forces of globalisation have prompted more and more countries to open their doors to foreign investment. As businesses expand across borders the need has arisen to recognise the benefits of having commonly accepted and understood financial reporting standards. Responding to this need, our Institute has started the exercise of convergence of the existing accounting standards with International Financial Reporting Standards (IFRS). These standards, after convergence, shall be made mandatory in a phased manner during the years 2011– 2013. So far as Small and Medium size companies and Non-corporate Bodies are concerned, the existing accounting standards will be applicable.

The government, having recognised the importance of accounting standards, has also amended the Companies Act, 1956 and made these Standards mandatory. The Government has advised all Public Sector Undertakings as well as Banks and Insurance companies to comply with these accounting standards.

In order to ensure that CAs perform their duties in a proper manner to achieve the audit objectives, our Institute has issued several standards on Auditing through its Auditing and Assurance Standards Board (AASB). AASB has issued more than 35 standards on Auditing and it is constantly reviewing these standards in view of changes in international practices and changes in legislation. All these standards are mandatory and CAs in practice have to follow them while discharging their audit function.

Besides issuing these standards on Accounting and Auditing, the Institute has also been issuing Guidance Notes, Clarifications and Research Publications to ensure that our members get guidance on various complicated issues while rendering their professional services.

"It is not always that all students qualify for becoming members of the profession. To provide opportunity to those unfortunate students who have completed the practical training but not been able to pass both the examinations of the Institute, recently an opportunity has been provided by the Institute to them by way of awarding a Certificate of "Accounting Technician". This certificate will enable such students to work as accountants in industries as well as C.A. Firms."

Professional Ethics

A professional is able to command respect in the society because his motto is "pride of service in preference to personal gain". A person who places public good above his personal gain is a "true" professional. This applies to any person engaged in a profession be it legal, medical, engineering or accountancy. For the success of any profession, it is essential that there is a strong base provided by the regulatory body. The system of education, training and examinations should be such that it is able to command the respect and confidence of the general public. Further, the regulatory body should be vigilant in enforcing discipline on the members of the profession. The users of professional services require an assurance that a member of the profession whose services are retained (i) is competent to render professional service and (ii) is a person of character and integrity.

Character and integrity of a professional will depend on his personal qualities. This will also be guided by the environment in which he is working. This position can be maintained and strengthened only if the regulatory professional body is able to guide and create an appropriate environment to enable its members to live up to the high moral and professional standards.

The prestige and confidence enjoyed by a profession, to a great extent, depends on the strictness and the scrupulous manner in which the professional code is interpreted. What is necessary is to create a public image that the members are honest and that the erring members are awarded due punishment without any delay. A strong professional body, like our Institute, has been able to create this public image and maintain discipline amongst our members through legislative support and self-regulatory measures.

The procedure for holding enquiry and awarding punishment to erring members is provided in the Act and the Regulations. The authority of the council is not limited to enquiry relating to "Professional misconduct" only. The council has authority to inquire about the "Other misconduct" by a member in his personal conduct in the field other than his professional activity.

It may be noted that till 2006 the procedure for conduct of inquiry in disciplinary matters was very lengthy and cumbersome and the final decisions were delayed in almost all cases. After making a review of this procedure, the C.A Act was amended so that all disciplinary cases can be decided in the shortest possible time.

The C.A Act contains two schedules, one dealing with misconduct by a member in his dealings with the other members and the Institute. The second schedule deals with misconduct in performing his professional duties while rendering service to outsiders. Under the new procedure the Board of Discipline / Disciplinary Committee has been given authority to conduct the inquiry on the basis of report of Director (Discipline). If the committee is of the view, after inquiry, that the member is guilty it can award punishment. If the parties are not satisfied with the action of the committee, appeal can be filed to the Appellate Authority constituted under the C.A Act. This procedure will expedite the disposal of disciplinary cases.

International Relations

The Institute has always been very active in all major international developments affecting the accountancy profession around the globe. It has participated regularly in several international conferences organised by International Congress of Accountants, Asia and Pacific Accountants as also by other accountancy bodies in the world. The participation in such events not only provided unique opportunity to Indian representatives to have first hand experience of the latest developments but also helped in promoting mutual appreciation and understanding.

The initiatives taken by the Institute over the years have provided a very strong foundation in the area of international relations. The last three decades can be termed as golden years for the Indian accountancy profession. This is evident by the role played by the Institute in the formation of Confederation of Asian and Pacific Accountants (CAPA), International Federation of Accountants (IFAC) and South Asian Federation of Accountants (SAFA). Apart from the initiatives towards unification of the accountancy profession, the role of the Indian accountancy profession, in terms of technical contribution, is also very laudable. In recent years the Institute has signed Memorandum of Understanding with several countries in the world for establishment and development of accountancy profession in those countries.

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It is gratifying to note that one of our past presidents has held the position of Vice-President of IFAC and another past president is at present president of CAPA. Some of our past presidents have held highest positions in SAFA, an organisation of Accounting Bodies of India, Pakistan, Sri Lanka, Bangladesh and Nepal, which was promoted by our Institute in 1984.

Many members of our profession are presently settled in various countries and rendering professional services. Institute has set up chapters in 21 countries. For the benefit of Students undergoing studies for CA course in some of the countries the Institute is holding examination in these countries.

Administration of the Institute

A natural relationship exists between the growth of a profession and the necessary organisational infrastructure to sustain the same. The Institute being a service organisation has to be efficient to meet challenges posed by the growth in membership and students enrolment. At the same time, as stated earlier, it must be able to demonstrate its positive contribution to the society. It is needless to state that the existing services should not only be maintained and strengthened but the scope and extent of the services should also grow qualitatively over a period of time to meet diverse needs of increasing membership and students. Simultaneously, it must also respond to the environment in which it operates. It is also essential on the part of the administration to exercise its powers to regulate the affairs of the profession of chartered accountants within the provisions of the CA Act and Regulations made thereunder.

The manner in which the Institute's administration is set up today can be treated as a great strength of a regulatory professional body to deal with its members in the most objective manner within the overall framework of Act and Regulations. The developments over the years also necessitated the provision of necessary infrastructure as well. The steady growth in number of students opting for this course and increase in membership definitely brought in more pressure on the administration. The Institute, from time to time, took several decisions to streamline the administration. It has established 5 Regional Councils, 125 Branches and decentralised offices at the Regional level and at the branch level. In order to meet with its development role, the Institute has set up facilities for education for students and technical and research activities. Corresponding to all these developments, both technical and non-technical staff also grew in number and, consequently, several steps were taken with a view to restructuring of organisation from time to time. With a large and ever growing body of members and students, the Institute is required to interact with them either in groups or individually and also with members of the public, media, chambers of commerce, government and international accounting bodies. The social responsibilities thrust on the members of the Institute make it all the more necessary to keep communication uninterrupted and active with them. In this respect, the approach of the Institute has been proactive and its representatives communicate with all segments of the society including the government. The assumption of such a role by the Institute is considered necessary since individual members are prohibited to advertise their attainments.

In this context, the Institute is publishing accounting literature for municipal corporations, local bodies, public sector organisations and the general public. To keep our members, government and others informed about the activities of the accountancy profession, the Institute has published the History of the Accounting Profession in two volumes covering the first 50 years of its existence. The Institute is also publishing its monthly Journal and a separate monthly Journal for Students.

Vision of the Accountancy Profession

The first President of our Institute while writing the History of the Accounting Profession (Vol. No.I), has stated as under.

"Throughout the world there is a great awareness amongst the citizens in general that every learned profession should develop a real sense of social purpose and social obligation and this should be more so in the case of the Accountancy profession, which, because of the present context in the country, has assumed considerable importance. The Chartered Accountant is a person on whom every section of society could rely and rely strongly. His certificate would be one by way of seal and a hall-mark which could at once inspire confidence in the minds of all concerned as certification by a person fully competent and holding a charter from Supreme Legislature of the country for the purpose. In the performance of any type of duty, the Chartered Accountant would have to think not only of the interests that he is serving, but of the general interest that he is expected to serve in relation to society. He must be above reproach, he must reflect the highest ethics of the profession, he must posses the expert knowledge which can throw light on important problems and issues and he can by his accomplishment and behaviour assume his rightful place as one who can give and provide the necessary guidance in respect of all matters relating to his specialized field of knowledge."

Considering the efforts put in by the professionals and the progress made by the accountancy profession in our country over the last over 60 years, one can say that our profession has imbibed the above vision and become a service oriented profession.

This is also reflected in the Institute's VISION document which depicts our vision for the 21st Century.

- Recognise the changes in Economy/Business Environment such as focus on value, dynamic business and organisation structures, developments in the Information Technology and Telecommunication, new Government policies, globalisation of business and competitive pressures.
- Recognise the path to success by adapting to the changes, knowledge management and acquiring skills to work with future environment influenced by technological and other changes.
- Recognise the opportunities for Chartered Accountants in the emerging areas such as new audit and assurance needs, performance measurement services, change management services, strategy management, general practice specilisation and serving global organisations.

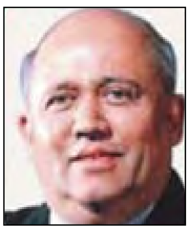
"The Chartered Accountant is a person on whom every section of society could rely and rely strongly. His certificate would be one by way of seal and a hall-mark which could at once inspire confidence in the minds of all concerned as certification by a person fully competent and holding a charter from Supreme Legislature of the country for the purpose. In the performance of any type of duty, the Chartered Accountant would have to think not only of the interests that he is serving, but of the general interest that he is expected to serve in relation to society."

- Recognise the Institute's role as a proactive, innovative and flexible organisation, in equipping Chartered Accountants with top quality education and values.
- Recognise the need to be known as World Class Advisor.

As stated above, the accountancy profession in India, over the years, has made a tremendous progress not only by increase in number of members and students but also in quality of service rendered to the clients and the society in the field of accountancy and other professional services. It is true that we have come a long way in the last over 60 years. But that does not mean that we should be complacent about our achievements. We must remember that we have to go a long way to achieve our vision and to upgrade our services to the society. In the present environment, we will have to put in lot of efforts to improve our ethical standards so that we can demonstrate that the CA profession in India is the best in the world. Let us pledge that we shall collectively make all efforts to achieve our vision in the coming years and upgrade our ethical standards and quality of service to the society. ■

Bean Counters' Osmosis

The travails of the CA in India have two components – *First,* an inherent *Prarabdha* which is a unique feature in the CA Act, and *Second,* a *Kriyaman Karma* of neglecting two engines that could have navigated to greater fortune. The *Prarabdha* is that the CA Act keeps members from doing that which is not prescribed, unlike say the Advocates Act which keeps non-members from doing whatever the black gowned profession does. So the CA Act shackles CAs while Other Acts shackle competition. The *Karma* is that when the enduring tale of the CA profession is eventually written, the scribes shall have the unenviable task of scripting a durable record of the price paid for neglecting presentation skills and language skills. The neglect of these skills virtually handed on a platter to MBAs and other disciplines, traditional preserves, over which CAs could easily have retained hegemony.



CA. Y. M. Kale

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CAs once rode the high tide of sought after tax expertise, following doomed attempts by the business community to find cheer in the tax regime then extant under the FERA cum License Raj, except through the most abstruse tax planning, on a scale now hardly credible even to modern tax planners. The finest minds upon graduation, craved Articles, enchanted by the premium CA qualification. Some of the gems who trained during those years, are today leaders of many sectors in India and abroad, too numerous to recount.

Before the blossoming of other specialisms, the absorption with taxation as a discipline was near total. When established CAs of that era crossed fifty years of age, it would not have been uncommon to see their interest in the finer points of fiscal interpretations sublimated to become the principal passion of existence, replacing all other zests.

Yet members of our profession were imperceptibly but irreversibly consigning themselves to meaner & less rewarding rungs on the ladder of representational work. While some were ticking up chargeable hours in client offices, others turned disputation into argument in tax offices, and escalated these before tax Tribunals, - the latter appellate forum already under relentless surrender to the rival black gowned profession.

1985 broke the tax spell and ushered in Financial Services which were already waiting in the wings to come centre stage.

The risks assumed by Financial Institutions in extending term loans soon brought forth a new breed of CAs to help borrowers satisfy the information needs of lenders. This work quickly extended to an appraisal of justifications for projects before committing funds. The ICAI published the Background Material on Project Evaluation in 1988, but well before that, entrepreneurs increasingly saw CAs as facilitators & procurers of much needed finance, rather than number crunchers peering at small print, while big picture concerns went unnoticed. The evolution of a learned but backward looking timid lot, into a dynamic pack not lacking commercial nous, became agreeably evident.

Another important lesson the profession was learning, was, that sectors outside traditional audit, especially industry sector, would value as advisors only those professionals who were providers of solutions, not those who stopped short of a solution, after finding the root of a problem, howsoever painstakingly researched that finding of the problem root may be. For many brought up in the traditional mould, this may have been a bitter pill to swallow. But it is important to bear in mind that if the perceptions of society about us professionals, do not coincide with our self perception, then it is we professionals who become irrelevant, not society, nor those who hold the purse strings that generally influence the perceptions of society.

For much of their formative years, earlier generations of CAs were awed by an authority known as the Controller of Capital Issues, that obliged industry to seek pricey attestation on intricate Application Forms, designed to obstruct rather than facilitate, the issue of capital or bonus shares. This controller vanished overnight, a little before the new SEBI sponsored arrangements were fully in place, leaving an interregnum during which a number of adventurous souls including CAs had more than their share of fun.

In one of his famous plays Shakespeare has written an oft quoted line "let us kill all Lawyers". He was terribly wrong, not only because he exaggerated the foibles and banalities of the calling he named, but because he had never met Merchant Bankers before he wrote that line. Had he met Merchant Bankers, he may not have dished out this dire prescription to others.

I have a foreboding of worse disasters to come from this tribe but, the malaise is no longer confined to bankers & capital market intermediaries. It includes modern CFOs, many of whom are CAs. So obsessed are the CFOs with 'selling' Bankable Balance Sheets to Analysts and Investors and presenting their Business to audiences from an external perspective, that, an in depth expertise in specialist areas like Risks, including Tax risks, and Regulatory requirements, have become for them the least important areas of their work. This folly is compounded by the cordial assent which these incorrect priorities now seem to receive, even from the more comprehending minds, in Industry & Profession.

Were I asked to muse in retrospect, on who or what should be regarded as the biggest offender against financial discipline, I would not accuse the business community. On the contrary, given the spate of acquisitions abroad, the Indian businessman must be seen as a defender, not offender, by those who care about the Indian Economy. Instead I would regard the mindset of the pre-liberalization era as the chief offender because *inter alia* it curbed genuine entrepreneurship, denying the scarce foreign exchange to the worthy enterprise, while at times releasing it for the not so deserving.

Extensions of Accounting like costing, management accounting & financial management had very early been popularised, covered by authoritative ICAI pronouncements, and become common enough to be put to general account. The concept of accounting had changed, from one of Maintenance of Books & tracking Asset changes, to complex resource allocations & forward looking measurements that support decisions for the efficient maximisation of profit. These specialisms were subsumed by Management Consultancy, which turned esoteric, and gradually the more lucrative work was captured by Brand names, mostly non-CAs, able to win predatorily priced assignments, and function with impunity outside any regulatory framework whatsoever.

Hopes about uplifting Audit as a deterrent to corporate quixotry, through a convergence of statistical sampling & unprecedented advances in information technology, died early. Technology and Sampling were used to boost margins by justifying drastic reductions in work and costs, by many, but almost institutionalised by a large international organisation that collapsed some years ago causing much misery. Given the disability that, an auditor can neither issue summons, nor examine on oath, nor disclose the most horrendous client sins except in a court proceeding, auditing is probably destined to veer towards forensic investigations with statutory support. Some international firms have made commendable progress in this, without formal backing.

Audits long since had progressed, beyond the post factum technique of validating profit or loss and asset changes, to prescriptive regulator driven reporting regimes, notably the requirements of October 1973 obliging verifications of capacities, turnover, production & stock quantities categorised by licensed sublimits, to be published in Annual Reports; and MAOCARO 1975 (forerunner of current CARO) requiring explicit subjective judgemental statements that broke new ground, augmenting responsibility and chargeable hours to perform extra work, without commensurate rise in fees, because clients saw little benefit to their businesses from that work. Astute, information hungry bureaucracy had spotted, an ideal intermediary to cater to regulator needs at no cost. So, over the years MAOCARO items elongated like the legendary *Hanuman* tail. One benefit that flowed from MAOCARO was a formal resuscitation of Internal Audit.

Accent was as much on redistribution of work as on creation of new work; 'Tax Audit' was a notable milestone in creation of new work. Curiously though, the more comprehending minds among the then seniors, were, at least initially, not enthused by this source of perennial new work, - it was seen as too risky.

The pet themes in rationing audits were *'rotation'* which was rumoured tri-annually, and *'ceiling'* which was mooted more recurrently. The latter was eventually enacted at 20 audits per partner and the former dumped, not because this was a triumph of self preservation by the old guard, but because many rotationists had done so well over the decade, as to see life differently.

Firms with quality clientele to match today's Multinational LLPs, but squeezed by an oppressive tax regime, worked in rudimentary environments, with non-existent creature comforts, the serene antithesis, of the later-day CA offices modelled after five star lounges.

The ICAI Council contains competent and clean professionals. But in a closed economy, an unseemly proportion of time was drained on volumes of disciplinary cases punishing puny sins, - no more than tiny ads, minor indirect solicitations, and acceptance of miniscule audits without prior NOCs, mainly by members struggling for the economic necessities of life. Large established wrongdoers, including CAs outside professional practices, were seldom booked.

Fault lay not with the hapless membership but in the stagnant economy, and archaic regulatory shackles, that offered little opportunity, except perhaps through emigration. Thousands went West, and as many gravitated to the Gulf. They did well, and did their country and calling proud.

The council did take worthy initiatives in line with world trends. Accounting Standards Board was set up in 1977. But contrary to popular impression the thrust, at least initially, was not market driven.

Every few years, Council resolutions expanded the list of what could be includible as permissible work to be performed by CAs. Like troops attempting to hold more ground than what their supply lines could sustain, the spread inevitably became thinnest at the core. Adjacent competencies waxed, while traditional proficiencies may have waned.

Sadly, members in industry gradually saw ICAI activities as somewhat less relevant, and in later years, one was never certain, how much of the participation at seminars, was spurred by mandatory CPE.

Meanwhile tribes that were initially tiny, like Company Secretaries, Internal Auditors, and Financial Analysts made considerable headway. They cultivated, *inter alia,* better relationships with key officials in Ministries of immense relevance to the Professions. ICAI was more established, but may have been perceived as somewhat insular, by those whose opinion mattered most, during critical phases of growth and development. Our policy towards competition appeared to be to, first disregard, thereafter ban our members joining those bodies, and after such banning had conferred upon those bodies the halo of martyrdom that ensured their survival, then finally appoint a committee to co-ordinate mutual exemptions from examinable subjects.

Elections had always been an undercurrent in the council, and with exponential growth in the number of members, elective merit loomed larger. Elected councillors, earlier seen as outstanding CAs who happened to have good PR, were increasingly perceived as outstanding PR men who happened to be CAs. Fortunately, sufficient number of men of great merit still obtain on the Council. Surrender to publicity driven activities seems common, with perhaps scant attention to the professional core that really matters. Very few of the many challenges that came along – whether it be the electronic age, the growing role of rival disciplines, or more vitally the avalanche of Foreign Service Suppliers post 1993 – can be seen as proactively met on their own terms with foresight and resource.

A New Order evolved in which professional services organisations, some of whom are integral parts of international networks, endeavour to offer advice using a multidisciplinary business focussed approach.

To view the New Order as unwelcome, would be an exercise in misinformation and prejudice. The change heralded much that was good, and some of it exceptionally good. First of all, the New Order destroyed oligarchies that had existed earlier. Equality of opportunity is a principle far better served by the New Order in the first decade of the 21st century than was ever served during the preceding half century. Equally importantly, aspiring talented CAs unable to flourish their own practice can now join the very large establishments more easily than they could ever have become part of the erstwhile oligarchies. Besides, it is only the New Order that has made it possible for large numbers of CAs to receive pecuniary rewards far higher than those ever expected in the past. Moreover, under the current new dispensations, the large residue is annually shared locally with remarkable fairness, and reportedly with an equity that contrasts favourably with the skewed slopes for profit sharing ordained in the past. Finally and happily, the local top brass of all the new large CA establishments in India, are overwhelmingly members of ICAI.

All told, there is less reason to deprecate the CA image than detractors might suggest, because successive corporate failures show that the 'best' of those who report on deeds performed by others, cannot equal the *'least'* of those that perform the deeds worthy of being reported. ■

Indian Accountancy Profession – International Perspective

Indian Accountancy Profession is age-old but in its organised form is close to eight decades old. The profession has, over the years evolved systematically and holds its own, basking in the glory of its edifice, built by dedication, vision and wisdom of numerous stakeholders. The Indian accountancy profession ranks third in size, vying to soon overtake to the second and to become largest in the world in the medium term, given the number of students, which is way higher than in any other country. This large size is widespread, in the nook and corner of the country and has footprints in several countries of the world.

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The international perspective of the profession cannot be isolated from the country's world-view and its aspirations as a rising economy. This effort thus looks at some macro aspects that may arise.

The sheer size of the Indian accountancy profession, enjoins upon it, a high degree of responsibility with international outlook, in the rapidly increasing global environment. The profession has made stirrings on the international scene and needs to attain its natural role of leadership on the global platform, vesting in it the ability to positively intervene in the global accounting policy making process, in keeping with the rising role of India, rather than being a mere bystander.

India is seized with a resurgent enthusiasm, in shaping the emerging world economic order, in its quest to improve the quality of governance and thereby welfare of its people. Implicit in the process, it has to look at the global environment and aim at active,

"The accountancy profession is also witnessing a paradigm shift in the contours of what constitutes accountancy services, which has come to include amongst others, risk management, strategic planning, privatization of public sector enterprises, private financing initiative, strategic planning, skills in improving the use of data or knowledge and the like. This will call for a re-orientation of the education and skill-set of accountancy professionals."

cooperative and competitive participation. The economic growth and the accountancy profession move together substantially, if not in the linear proportion. The service sector has become a key-driver for economic growth, representing over one-half of Indian GDP. The accountancy services as direct input or as part of other services is a key component of the immense service sector potential.

India is already the fourth largest economy in terms of Purchasing Power Parity [PPP] and is likely to move to the third position in near time. The Asian region accounts for half of the global population and only a little over fifth of its wealth. This is changing and the region is expected, based on the trends, within five years, to account for more than a third of global output in terms of PPP, comparable in size to the economies of US and Europe and by 2030, it is expected to exceed the major industrial economies [G-7], as reported. There are various reports which suggest that Indian economy in the real terms will come closer to the size of USA in the next three decades or so. The economic crisis of 2008 and the unfolding euro zone crisis have been partly mitigated by the resilience and rise of Asian economies, led by China and India. According to some estimates, in the coming times, dominant share of incremental global output shall be accounted for by China and India. This growth potential of Asia is expected to provide unprecedented opportunities, amongst others, for the Indian accountancy profession, given its evolving size and strength.

The accountancy profession, in any part of the world cannot remain unaffected by these developments, more so the profession in India, given its size and the dominant share of the evolving economic growth accounted for by India and the Asian region. This also would mean that accountancy profession in the developed world would compete for the emerging opportunities. Cross border movements in the entrepreneurship and the capital has changed the professional environment for the accountancy profession, more particularly for India, given the high scale of inbound and outbound investments from India.

The Indian accountancy profession has over the years, withstood and measured up to the demands of times. It can be envisioned, given the rising role of India in the world economic order and the size of Indian accountancy profession, it would, with knowledge edge, emerge in the forefront on the global accountancy platform. The implicit vision, being, assumption of lead mantle at the world accountancy forums.

The corporate governance and accountancy issues, that rocked the developed world and more recently in India, had global dimensions. This has led to the codes, standards and observances in the global model, no more remaining confined to sovereign issues of any one country. In fact, increasingly, it has become a multilateral issue. This has also meant a clamour for greater public accountability and oversight, as never before. The discussions at the group of twenty big economies [G-20] post 2008 crisis, has, amongst others, focused on issues relating to accountancy, such as, reducing the complexity of accounting standards for financial instruments, provision for loan loss factoring credit information, improvement in standards for provision of off-balance sheet exposures, clarity and consistency in the application of standards, moving towards one-set of high quality global accounting standards, evolved with active involvement of all stakeholders including from emerging markets. The World Trade Organization [WTO] and various bilateral and multilateral arrangements are leading towards an emerging common market, over time. The above is bound to give rise to the accountancy profession worldwide, become focused with international outlook including by addressing the global concerns raised.

The 'international audit practices', at present, are carried through a net work of jurisdictional practices, bonded together under a common name or otherwise, with seemingly common codes and practices, which is not the same as being carried by 'a practicing firm' across the world. Even as it is so, there is no adequate publicly available information on the workings of such networks. This current scenario is likely to give rise to setting up of a global body that would recognise firms with global reach subject to the frame-work, common code and discipline, which would evolve with transparency. This body could well be made up of important bodies from big economies, representing emerging reality – India being an obvious choice – rather than steeped in the past. This would mean that firms, including those in India, themselves will either be subsumed in international networks or look towards scaling up by moving their practices across borders both organically and inorganically, in the same manner as they moved to national practices.

The accountancy profession is also witnessing a paradigm shift in the contours of what constitutes accountancy services, which has come to include amongst others, risk management, strategic planning, privatization of public sector enterprises, private financing initiative, strategic planning, skills in improving the use of data or knowledge and the like. This will call for a re-orientation of the education and skill-set of accountancy professionals.

The global economic order is giving rise to economic reforms across the countries. The leitmotif of the evolving reforms suggest, probity in financial transactions and transparency in financial reporting, which are critical to success of economic reforms. The role of accountancy has never been so focused, as at present. This implies evolution of financial reporting standards and their due oversight. India is taking to re-look at devolution of powers, delivery mechanism and public financial accountability. This would mean alignment of the institutional framework including the discharge of professional functions through accountancy professionals with the new realities. The new realities, amongst others, would be:

- challenge of technology and virtual systems;
- changing contours of the professional services;
- convergence of standards, codes, practices and mechanism for its awareness and implementation on the ground;
- restoration of public confidence including through public oversight mechanism;
- striking a balance between professional autonomy and public interest; and
- continual development of knowledge edge.

The Indian accountancy profession would, therefore, increasingly work its way to meet the aforestated new realities, in variety of ways, as can be discerned from the pace of activities, in the recent past. This gives an inkling of things to follow, leading the Indian accountancy profession, not only measuring upto the evolving needs but to surpass and play a trailblazing role, on the international scene. This may call for the framework of the profession, to move away from certain long-held views, in line with global thinking. In doing so, the Indian accountancy profession would aim towards harmonious development, narrowing intra-professional disparities. This would mean:

- continual development of IT systems and educating and encouraging adoption of IT based audits;
- to prepare accountancy profe-ssionals to meet the challenges of paradigm shift in the requisite emerging areas for modern day accountancy practice;

- to continuously develop and ensure knowledge edge through innovation and research and by building forums for high quality discourses;
- convergence with the global standards, codes and practices, even as the Indian profession contributes and participates in their development, and developing a robust mechanism for ensuring their implementation through education, awareness and reviews;
- playing contributory role in the global policy making bodies;
- securing a leadership role in the global framework of the profession in keeping with its professional size and stature, enabling positive intervention in policy making process;
- to help shape and act in tandem with country's strategy on the world scene;
- recognising the global realities in terms of different stages of development of accounting sector in the various parts of the world;
- to encourage formation of a global body for oversight of 'international auditing practices' and seeking a leadership role on such a body;
- to step up the process of reciprocity across jurisdictions;
- to encourage professional firms scaling up and moving towards cross-border practices;
- institutionalization and capacity building across the profession;
- to enable becoming agile decision driven profession;
- public awareness campaign, public oversight mechanism and public reportage on the workings of the regulatory body;
- develop greater transparency on the profession's role without compromising on professional autonomy;
- to restructure professional fram-ework, striking balance between professional autonomy and public interest;

The Indian accountancy profession has over the years, withstood and measured up to the demands of times. It can be envisioned, given the rising role of India in the world economic order and the size of Indian accountancy profession, it would, with knowledge edge, emerge in the forefront on the global accountancy platform. The implicit vision, being, assumption of lead mantle at the world accountancy forums.

In the event, the accountancy prof-ession, like any other, will grow and thrive, only on the strength of its innate ability to anticipate and address the evolving needs of society, with integrity, value and vision. ■

Making Indian Economy Stronger: Role of CAs

"The Indian Accounting Profession has a responsible role to play in contributing to the policy formulation, establishing financial discipline and promoting accountability that is inevitable for the progress of the nation. ICAI can lead the Profession in this initiative and continue to play a vital role in advocating reforms and be a facilitator of good governance measures in the functioning of the Central and State Governments. If only we can make a meaningful contribution leading to the growth of Indian economy in an accelerated fashion as indicated above and thereby alleviate poverty by enabling percolation of prosperity down the line to the masses, we would justify our existence and leave a legacy which the human race would cherish to preserve besides inspiring others to emulate us."

CA. T.N. Manoharan
(The author is Past President of ICAI. He has recently been conferred with Padma Shri. He can be reached at tnmanoharan@gmail.com)

Introduction

World over there is a sense of caution in the financial sector on every step that is taken forward due to the unprecedented crisis that hit the developed economies in the mid 2007. The impact of the crisis was so severe that the economies in the West are still limping on the recovery path and the signs of normalcy do not appear to be anywhere round the corner. The buoyancy that was experienced in the early part of the first decade of the 21st century appears to have vanished as an illusion and restoration of that buoyancy is a challenge that may take longer than expected. The worst affected regions are the North America and the Europe. The impact of the crisis spilled over to the rest of the world in different dimensions and proportions and kept a few economies reeling under pressure with negative GDP growth. Impact on India too was felt but we handled the situation reasonably well.

Global Scenario

Global financial crisis has affected the economic stability of developed nations and slowed down the progress of the developing nations. Recession led to the unemployment of over 600,000 in USA which was unprecedented in the last 25 years and the impact in UK seems to be no different as many corporate entities in England had announced massive lay-offs. Among the various business segments, the worst affected were the Financial; Automobile and Realty sectors. Unemployment had a severe impact on the economies due to the social security policies that were in place resulting in huge outflow from the exchequer to those who lost the earning capacity and were eligible to claim the likes of unemployment allowance.

What followed thereafter are matters in public domain but the significant event that needs to be captured is the passage of the legislation "Emergency Economic Stabilisation Act of 2008" by the US Government for bailing out the Financial Institutions and the magnitude was in the order of $ 700 billion! UK Government's support for the Banks had reached a staggering figure of 850 billion pounds!! Many other European countries resorted to the bail out plans to rescue the banks and other financial institutions, though the methodology adopted was different from that of the United States of America.

Indian Scenario

In contrast, the scenario in India is not as gloomy as it is in the USA or UK. The Indian banking system stood its ground very strongly and admirably, thanks to the regulatory governance mechanism of the Reserve Bank of India and the conservative approach adopted by all the banks. In a lighter vein, an "Indian banker" used to be described as a person who sanctions a loan only after all the evidence is placed before him to be convinced that the borrower is not in need of the loan. In any case, it was heartening to see Indian banking system stand tall even during the turbulent period when at the same time their contemporaries in the West were in a shambles.

India, no doubt, could feel the slowdown in 2008 but the stimulus packages announced thereafter to the effect of reduction of CENVAT by 4 per cent; Service Tax by 2 per cent; interest rate reduction for small and micro enterprises by PSU banks and a few other measures provided an air

ICAI, the only regulator for accounting profession in India, can partake in the policy formulations of the Government at various levels directly and through its regional centres and branches across the country. ICAI, besides formulating accounting standards and bringing out accounting reforms, can also participate at the Central level, State level and Local Bodies level to infuse the financial discipline by facilitating establishment of systems, procedures and controls.

of relief and respite. The turnaround is being experienced in many sectors during the current year and the economy is predicted to respond positively by the end of 2010 and from then on, economists fervently hope, the resurgence would be assuming faster pace. Indian economy which was consistently surging with the GDP growth of more than 9 per cent in the preceding three years (9.5 per cent in 2005-06; 9.7 per cent in 2006-07 and 9.2 per cent in 2007-08) slackened and dripped down to 6.7 per cent in 2008-09 and got marginally revived to 7.4 per cent in 2009-10.The main focus of the Government is to bring back the economy on track and achieve over 8 per cent GDP growth from the current year and move to double digit growth thereafter.

Global economies view India as one of the fastest growing economies in the world. The untapped potential in the Indian market and wider horizons of opportunities are turning the attention of the global investors in favour of India. It is not surprising that in the G-20 meetings held after the global financial crisis, leaders of the developing nations like India are given due prominence contrary to what was witnessed in the earlier days. The BRIC summit held among the emerging economies –Brazil, Russia, India and China- has made the rest of the World look up to these nations as those who have the potential to accelerate the revival of the world economies. In the light of this background, it is pertinent to analyse as to what India and ICAI need to focus on in order to emerge stronger over the next decade, which period is perceived to be a critical phase in the annals of the nation.

Role of ICAI

ICAI, the only regulator for accounting profession in India, can partake in the policy formulations of the Government at various levels directly and through its regional centres and branches across the country. ICAI, besides formulating accounting standards and bringing out accounting reforms, can also participate at the Central level, State level and Local Bodies level to infuse the financial discipline by facilitating establishment of systems, procedures and controls. Finance is the live wire of any economy and, therefore, ICAI should plunge into facilitating the formulation of economic and social policies backed by sound financial measures by the various Governments in an appropriate manner.

ICAI can work with various ministries of the Central Government and State Governments to help focus on identifying the priority areas and prepare a road map for funding and effective utilisation of funds. This is not something new and ICAI has worked with several ministries of the government in the past on various initiatives. In fact a few years back, the HRD ministry sought the assistance of ICAI for streamlining the usage of funds gathered out of education cess to the Sarva Shkisha Abhiyan and the Mid Day Meal programme. ICAI, through the Accounting Research Foundation, was engaged for bringing accounting

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reforms in a few local bodies and also in a few public sector departments. Therefore, ICAI need to gear up and pitch in to adorn this role voluntarily, consistently and more prominently.

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Priority Areas

ICAI can begin this commendable initiative in select areas. It is imperative that over the next few years the focus should be in five fields viz., Health; Education; Infrastructure; Agriculture and Tourism. In each of these areas ICAI can make a study, make recommendations to the governments and develop feasible models besides doing the handholding for effective implementation thereof. Although a lot could be done in all these areas, a brief illustrative indication of what needs to be done is outlined hereunder.

HEALTH: Welfare of the people lies in good health care system and impetus needs to be provided to free medical care to the poor and needy at similar efficiency and with the same quality as available in the private hospitals to the rich. Measures to ensure provision of nutrition to all children and steps to achieve and maintain environmental cleanliness and hygiene are inevitable. All the state governments should come forward to uniformly adopt the Emergency and Health Care models that are prevalent in 11 states as on date including AP: Gujarat and Tamil Nadu under the PPP basis with the brand name “Emergency Management Research Institute”(EMRI -Dial 108) and “Health Management and Research Institute”(HMRI -Dial 104) so that technology can be effectively deployed to save human lives and to do medical counselling in the most competent manner.

EDUCATION: Education can transform the lives of the poor and empower them with self sustainable career path besides leading them to enlightenment. Government has been compelled to raise additional revenue by levying educational cess for strengthening the system of primary and secondary education but the benefits of this endeavour are not yet visible. A new stream of education should be evolved to empower the youth with soft skills; technological skills and professional skills. Soft skills should encompass linguistic skills too. India should emerge as the hub for human resource development and intellectual manpower sourcing. With the kind of demographic advantage India enjoys, having over 45% of its population below the age of 25 years, we should be in a position to translate this dream into a reality over the next decade to reap rich dividend.

INFRASTRUCTURE: India and China are the two Asian economies among the fastest growing economies of the World. But the edge which China can claim over India is the magnitude of its investment in infrastructure far ahead of the growth plans. China’s budget allocation for infrastructure is $100 billion whereas India’s allocation is just $11 billion. Nothing short of a huge investment plan and aggressive execution of those plans to establish adequate infrastructure such as roads, ports, airports, power generation, modernisation of railways and

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telecommunications would empower India to grow faster and narrow down the gap with China. For instance, when India became Republic, power generation both in India and China were at the same level whereas at present, power generation in India has touched only 150,000 MW whereas China has achieved 650,000 MW.

Similarly, rail tracks need to be totally modernised to increase the speed of the trains at least twice the present levels as connectivity between cities in a matter of hours would help efficient transportation of goods and passengers besides easing out the congestion in air traffic. Good roads and speedy rail connectivity enable cities to grow horizontally instead of vertically thereby not choking the infrastructure and also diluting the pollution and congestion. Providing urban amenities to rural areas would also prevent migration of the rural population to urban areas and in a phased manner rural areas would turn out to be self sufficient.

AGRICULTURE: India was known as an agrarian society. Father of the Nation Mahatma Gandhi believed that India lived in villages. Today, it is saddening to know that every day, somewhere, there is a farmer attempting to find a permanent solution to a temporary problem. It is saddening that we have grossly neglected the Agricultural sector over the last several decades. Government should be counselled to pay attention to improving the methods of cultivation and help the farmers to mechanise the process as it is becoming difficult to get work force to toil in the fields. Modern implements/ equipments need to be provided and methodologies have to be imparted in order to increase the productivity manifold. Countries that do not have Sun shine most of the year succeed in achieving greater productivity than India. In our country, we have Sunshine and rains but we have miserably

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failed in generating Power as well as in ensuring water storage and supply. We need to prioritise implementation of irrigation projects. It is unfortunate that even though nature is supportive and we have minerals and resources, lack of human effort and absence of good governance to harness the resources have led us to be in this pathetic state of affairs. Economists say “India is a rich country inhabited by poor people”. This statement can be falsified only if agriculture sector gets the importance it highly deserves and it is promoted at par with the service sector and manufacturing sector.

TOURISM: Be it mountains or valleys; rivers or lakes; forests or resorts; backwaters or beaches; canals or snowfields; deserts or wild sanctuaries, one country you can find them all is India. There is hardly any other nature’s charm or creation which some other country can boast of that does not exist in India. Similarly, places of worship such as temples; churches and mosques ; palaces, monuments with architectural carvings and structures are all there in plenty. But, thanks to the indifference or the lack of proper governance, we fail to showcase them. If only proper access is facilitated with good connectivity, our motherland would turn out to be the most popular tourist destination and that could keep the players in the hospitality industry such as Hotels, Airlines, Travel industry and the allied operators thriving and prospering besides bringing considerable inflow of foreign exchange. China’s foreign exchange reserves account for 2 trillion US $ where as India’s forex reserve is just over US$250 billion. Although, this gap can be narrowed more by improving the proportion of exports vis-a-vis the imports, tourism can certainly supplement the resource besides building the image and goodwill for India.

Conclusion

The Indian Accounting Profession has a responsible role to play in contributing to the policy formulation, establishing financial discipline and promoting accountability that is inevitable for the progress of the nation. ICAI can lead the Profession in this initiative and continue to play a vital role in advocating reforms and be a facilitator of good governance measures in the functioning of the Central and State Governments. If only we can make a meaningful contribution leading to the growth of Indian economy in an accelerated fashion as indicated above and thereby alleviate poverty by enabling percolation of prosperity down the line to the masses, we would justify our existence and leave a legacy which the human race would cherish to preserve besides inspiring others to emulate us. There cannot be two views that India would join the league of developed economies in a decade’s time and it is for us to decide whether we would play an active role in the process as vital change agents or remain as passive spectators. The choice is obvious. ■

Words of Wisdom from Presidents of ICAI

The present edifice of the profession stands on a very solid foundation laid down in the formative years of the Institute of Chartered Accountants of India since July 1,1949. The presidents of the ICAI, the leading lights of the profession of their times, have meticulously shaped the growth trajectory of the Institute and the profession. We present herewith the select words of wisdom of the presidents of ICAI as expressed over the past 61 years of the ICAI's existence.

Late CA. G.P. Kapadia (1949-1952)

"During the period of construction, every new institution has to take care in organising the activities. Human nature is always tempted by speed and whenever a new institution comes into being, there is a desire to do and achieve every thing at the same time. In this respect, it is my firm belief that instead of attempting to do every thing which Institutions established for 40 or 50 years are doing, a new Institution should believe in a gradual process and try to achieve first, a proper working of the Act and the regulations, maintain proper standards of examination and maintain proper standards for disciplinary action."

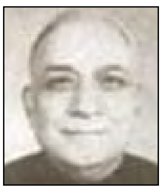
(Spoken at the 2nd Annual Meeting of the Council of ICAI on 11th Aug 1951)

Late CA. G. Basu (1952-1953)

"We are fully alive to the responsibilities, duties and obligations of the chartered accountants to the government, to the public in general and to their clients and we are doing and would do our best to see that the expectations are duly fulfilled."

(Spoken at the 4th Annual Meeting of the Council of ICAI on 12th Sept 1953)

Late CA. S. Vaish (1953-1954)



"We have to look back on the past and think for the future of the profession. The past has to be looked upon not so much for what has been done as for what remains to be done. The future has to be thought for accordingly. This applies to all the members of the Institute, both individually and collectively."

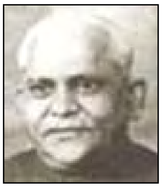
(Excerpts from President's message in 1954)

Late CA. N.R. Mody (1954-1955)

"A profession such as ours exists on the respect of the public towards its members, but it is our members only who, by integrity and independence of judgment, can make the Institute."

(Spoken at the 6th Annual Meeting of the Council of ICAI on 14th Sept 1955)

Late CA. C.S. Shastri (1955-1956)



"In the field of practice, the responsibility of the chartered accountants has increased beyond measure so as to make it almost unenviable for him to function as a public auditor."
(Spoken at the 7th Annual Meeting of the Council of ICAI on 13th Sept 1956)

Late CA. S.P. Chopra (1956-1957)

"Modern accounting is no longer a record of bookkeeping entries, reflecting merely the state of affairs of a business house. Over the years it has developed into an instrument of control and a tool for management. Accountancy has not only to keep pace with the advancement in technical and scientific knowledge in all spheres more particularly its commercialisation, but has also to be in a position to give answers with the requisite speed."
(Excerpts from the speech delivered by CA. S.P. Chopra at Amsterdam in 1957)

Late CA. S. Vaidyanath Aiyar (1957-5th February 1959)

"We can now claim that making allowance for the different conditions in those countries the Institute's syllabus stands comparison with that of the leading British professional Ac- countancy Societies and with the United States examination for qualification as C.P.A."
(Spoken at the 9th Annual Meeting of the Council of ICAI on 13th Sept 1958)

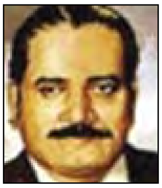
Late CA. C.C. Chokshi (2nd April 1959-1960)

"After consideration, discussion and deliberation, the Chartered Accountants Act was amended. Though on the whole the requirements adumbrated in the Amendments were acceptable to the Council, I must mention that in regard to the powers now taken by Government to change the Regulations, it has created a lot of misunderstanding amongst the members of the profession. The impression created by this amendment is that the autonomy, which was granted to the profession by Parliament only a few years ago has been substantially curtailed by this change without any justification and almost strikes at the very roots of autonomy."
(Spoken at the 10th Annual Meeting of the Council of ICAI on 7th September 1959)

Late CA. C.P. Mukherjee (1960-1961)

"I would like to make a special mention of our experience in conducting our elections under the system of polling introduced for the first time since the Institute was formed. As members might be aware, there was considerable skepticism whether this method was suited to an enlightened profession such as ours and whether the members, and particularly the seniors, would care to take the trouble of going to the polling booths to cast their votes. The Government also hesitated for some time to accept our proposal to change over to the polling system. I am very happy to state however, and I am sure my colleagues here will share my views, that the conduct of the elections by poll has been a great success."
(Spoken at the 12th Annual Meeting of the Council of ICAI held on 14th and 15th Sept 1961)

Late CA. S.N. Desai (1961-1962)



"The Council of this Institute set up two Committees during the year, one Professional Development Committee and the other Taxation Committee. The first mentioned Committee inter-alia is engaged in studying whether the technique of auditing as is generally applied by chartered accountants in different situations and circumstances, is effective and could be depended upon to yield results, so as to properly discharge the responsibility that there is on them, imposed by law, but more so by public opinion. The Taxation Committee, therefore, has been charged with the responsibility of examining various laws and rules in regard to direct taxation that are from time to time enacted by the Government; making representation for their amendment, if considered necessary, and preparing, notes to explain to members the implications of some of the provisions."

(Spoken at the 13th Annual Meeting of the Council of ICAI held on 10th and 11th Sept 1962)

Late CA. P. Brahmayya (1962-63)

"It has also been said that auditors are not independent. This is a misconception arising out of an inadequate appreciation of the numerous restraints, both legal and moral, and self-discipline, which a Chartered Accountant must practice. Independence is an essential characteristic of a professional audit and it is the duty and constant care of the Chartered Accountant to preserve it."

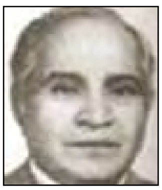
(Spoken at the 14th Annual Meeting of the Council of the ICAI on 14th and 15th September 1963)

CA. (Dr.) R.C. Cooper (1963-64)

"The problem of increasing the number of qualified Chartered Accountants to meet the continuously growing demand without at the same time in any way reducing the standard of training is a difficult one. The care which the Institute takes in this matter will determine the quality of its members during the next few decades, a crucial period, which will call for tremendous intellectual effort and versatility on the part of Chartered Accountants in applying their skills to the changing needs of commerce and industry."

(Spoken at the 15th Annual Meeting of the Council of The ICAI on 17th September, 1964)

Late CA. Raghu Nath Rai (1964-65)



"It has been the constant concern of the Council of this Institute to continuously extend the scope of audit practices in order to make the work of its members both significant and purposeful and, to judge their conduct strictly. We shall, therefore, continue to advise our members that they should conceive their duties as broadly as the circumstances might require, and not to restrict them to only a literal compliance of the law."

(Spoken at the 16th Annual Meeting of the Council of The ICAI on 20th October 1965)

Late CA. M.P. Chitale (1965-1966)

"The request recently made to us by the government for recommending a chartered accountant for the position of Accountant Member of the Income Tax Appellate Tribunal. I am sure this practice will help create the right type of climate where our members will regard that accepting such positions is an act of public service and a social duty. I suppose we shall have similar opportunities when, Sir, your idea of Tax Court materialises."

(Spoken at the 17th Annual Meeting of the Council of ICAI on 12th Sept 1966)

CA. Rameshwar Thakur (1966-1967)

"A great change the accounting profession in India has to reckon with is the advent of computer age at the international level. Some of the industrial units even in our country have started utilising the services of these devices. The electronic data processing system has almost revolutionised the traditional accounting and auditing functions. The change being swift, has caused a sense of alarm and it is realised that unless the present day and future accountants get themselves equipped with the knowledge of working of the computers, they would be relegated to the background."

(Spoken at the 18th Annual Meeting of the Council of ICAI on the 16th Sept 1967)

CA. V.B. Haribhakti (1967-1968)

"Every Chartered Accountant is the Ambassador of the Profession and of the Institute in the Court of the Nation and should do his best to enhance the dignity and the reputation of the Institute and the profession. To retain and enhance the trust and confidence of the Nation and of the Government, the CAs must maintain extremely high standards of professional conduct. My advice to the young members of the profession is: Do not take shortcuts; Fight the Cancer of corruption; Achieve value based progress in the profession by integrity, hard work and efficient service."

(As expressed in June 2010 in a communication to ICAI)

Late CA. R. Venkatesan (1968-1969)

"Fraudulent relationship between an auditor and his clients is practically non-existing because of the extreme care exercised by all the reputable firms in the selection of their staff members on the basis of their professional and moral character as also because of the improved methods of internal control of financial transactions now in existence in all the well managed institutions which make any collusion virtually impossible. To quote a remark made by a past President of the American Institute of Certified Public Accountants to rest the case for rotation of auditors on this point alone that long established familiarity with the auditors' representatives and the clients may lead to collusion, "is reminiscent of the blind man in a darkened room at midnight looking for a black hat that was not there."

(Spoken at the 20th Annual Meeting of the Council of ICAI on 15th Sept 1969)

Late CA. H.B. Dhondy (1969-1970)

"The need to keep our members up-to-date in a fast changing world is one of the greatest challenges facing our profession. The building up of special skills, acquired as a result of intellectual training, is the need of the hour. Even more than at present, the auditor's attention will be focused in the future on the end products of the accounting machines. The wealth and variety of accurate information, produced almost effortlessly, will open up fresh vistas of presentation possibilities. This is an opportunity, which the accountant must seize and hold if he has to retain his importance. It appears to me that the new accountants will need to know more about statistics, probabilities and mathematics. Their knowledge of accounting, of auditing practice and of management will have to be enlarged."

(Spoken at the All India Conference of Chartered Accountants on 19th Dec 1970)

Late CA. M.C. Bhandari (1970-1971)

"Many young men passing out of colleges and universities are attracted to our great profession by the glittering prizes that our profession is believed to have in store for them, but when they actually enter the portals of our learned profession, they are faced with the grim reality of sweated labour in big chartered accountants' firms, concentration of audits in the hands of a few audit firms."

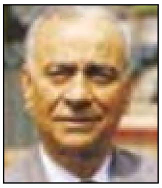
(Spoken at the 22nd annual meeting of the Council of ICAI on 16th Sept 1971)

Late CA. A.B. Tandon (1971-1972)

"What we should strive for is that once a conclusion has been reached by this elected representative body of the profession, it should be honoured, respected and obeyed by every member of a Institute, whether or not he personally agrees with the particular conclusion or finding. To my mind, it is the basic concept of a democracy that when a decision has been taken, after free expression and exchange of views every one without exception should submit to it."

(Spoken at the 23rd Annual Meeting of the Council of ICAI on 29th Sept 1972)

Late CA. R.K. Khanna (1972-1973)



"Looking to the future, I feel that the type of services which have stood us in good stead till now are no longer going to be so highly regarded by the Community. It is no longer sufficient that we simply comply with the statute governing the main range of auditing services."

(Spoken at the 24th Annual Meeting of the Council of ICAI on 14th Sept 1973)

CA. S.K. Gupta (1973-1974)

"The Institute of Chartered Accountants of India has always believed that there is large common ground for the Institute and the Institute of Cost and Works Accountants and the Institute of Company Secretaries and that the three Institutes should co-operate and co-ordinate their activities to the largest possible extent."

(Spoken at the 25th Annual Meeting of the Council of ICAI on 14th Sept 1974)

Late CA. N.C. Krishnan (1974-1975)

"Consistent with the place we aspire to hold in the world accountancy circles, I believe we also have a responsibility to discharge and in no area is this more important than in the formulation and enforcement of accounting standards."

(Spoken at the 26th Annual Meeting of the Council of ICAI on 16th Sept 1975)

Late CA. P.M. Narielvala (1975-1976)

"A notable feature of the elections, which took place, recently is the complete ban on canvassing which was imposed by the Council in order to maintain the dignity, decorum and purity befitting the profession."

(Spoken at the 27th Annual Meeting of the Council of ICAI on 16th Sept 1976)

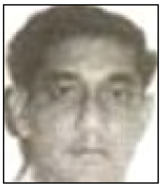
CA. B.R. Maheshwari (1976-1977)

"Life without dreams is no life. But remember that dreams are not seen when you sleep, dreams are those that don't let you sleep.The doyens in our profession had such dreams which did not allow them to sleep. By their dedication and devotion to the profession they carried it to a great height, which is visible in the rise in membership of ICAI from nearly 2000 and odd in 1949 to more than 163000 at present."
(As expressed in June 2010 in a communication to ICAI)

CA. B.L. Kabra (1977-1978)

Intelligence is not to make no mistakes, but quickly to make them good when a person's conscience brings the same to his notice. Only a coward cannot muster courage to take immediate effective steps to correct a mistake even after knowing it and thus deceives his own conscience.
(As expressed in June 2010 in a communication to ICAI)

CA. P.K. Malik (1978-1979)



"The Institute has also decided to start a National Relief Fund so that the profession's contribution in the event of national calamities is quick and substantial. An Education Fund has also been created by setting apart a specified sum of money out of the past-accumulated surpluses and by transfer from current revenue on an annual basis."
(Spoken at the 30th Annual Meeting of the Council of ICAI on 15th Sept 1979)

CA. Y.H. Malegam (1979-1980)

"While in the past it was sufficient if the profession remained accountable to society for its honesty and integrity, it has now become necessary for it to be accountable also for its efficiency and productivity. Thus, society expects the profession to be not merely the "conscience-keeper" of the business world, but also a direct contributory to the welfare of society in general and commerce and industry in particular."
(Spoken at the 31st Annual Meeting of the Council of ICAI on 16th Sept 1980)

CA. V. Rajaraman (1980-1981)

"Many changes have taken place in the general economic environment over the past few years, which I believe, will ultimately have a significant effect on the internal audit function. None of these changes is likely to have a greater impact on them than the emerging focus on corporate governances and corporate accountability. These changes have, in turn, produced a new emphasis on high standards of corporate and personal conduct and greater accountability for individuals who direct the affairs of business enterprises."
(Spoken at the 32nd Annual Meeting of the Council of ICAI on 16th Sept 1981)

CA. Bansi S. Mehta (1981-1982)

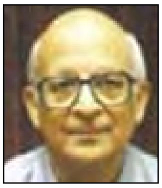
"Competence without integrity may seem to guide our economic search, but will undoubtedly anesthetize, even kill, the spirit of professionalism. We represent one of some islands of dedication and integrity in an ocean of avarice and debasement. The question is: how can we maintain the luxury of that island unless we try to reclaim the land around it by slowly driving that ocean away"
(As expressed in May 2010 in a communication to ICAI)

Late CA. Ashok Kumbhat (1982-1983)

"The right and responsibility to govern oneself and to regulate one's affairs is inherent in any democratic set-up and these sound principles underlie the constitution of our Institute as well. It is built on theory that members of an institution having joined together with common objectives – know what is best for themselves – the maximum good to the largest members. We have been enjoying a large measure of autonomy under the Charter and the Regulations for the last 33 years. Even in 1959, when Section 30A was introduced in the Act, giving the Government certain over-riding powers to amend our Regulations, specific assurances had been given that these powers were not likely to be used, they would be used very sparingly, and only in very important matters of public interest and that too, after consultations with the Council."

(Spoken at the 34th Annual Meeting of the Council of ICAI on 15th Sept 1983)

CA. P.N. Shah (1983-1984)



"The Motto of every CA should be to become a 'True Professional'. A 'True Professional' is a person who has intellectual honesty which makes him say what he believes to be right. He should have integrity – not only financial integrity, but also intellectual integrity and ability to maintain independence. He should have courage of his convictions and should have courage to say publicly what he believes privately. He should never give opinion to his client to suit his convenience and should guide him by showing the right path. Humility is just as important as courage and intellectual integrity. The higher the person goes in life, the humbler he should be."

(As expressed in May 2010 in a communication to ICAI)

CA. A.C. Chakrabortti (1984-1985)

" Let several firms of Chartered Accountants of repute combine and consolidate to form a World Class organization of excellence and highest standards so that it can meet the challenges of and compete with eight large international firms. This will add tremendous value to Indian Entrepreneurs aspiring to play an important role in global economy.

(As Expressed in June 2010 in a communication to ICAI)

Late CA. P.A. Nair (1985-1986)

"The social status of a professional has a direct relationship with the extent of responsibility that it is willing to accept and is capable of accepting. Today, the social image of our profession is at a new peak. At the same time, the society's demands are exacting. If we are to maintain and further enhance our social status and reputation, it will be necessary for us to demonstrate, in no uncertain terms, our ability to accept onerous and challenging responsibilities. No efforts should be spared in justifying the confidence reposed in us by the society. This calls for independent, objective, honest and impartial attitude on the part of each one of us."

(Spoken at the 37th Annual Meeting of the Council of ICAI on 16th Sept 1986)

CA. R. Balakrishnan (1986-1987)

"ACCOUNTANCY" is the "TRAIN ENGINE". "ACCOUNTANT" is the "ENGINE DRIVER" who keeps the train on its tracks and watches out for the red signals on the way. The "INTERNAL AUDITOR" is the "TICKET EXAMINER" who sees the convenience of passengers and controls entry to the train and gives them proper berth and takes action on defaulting passengers. The "AUDITOR" is the "GUARD" who raises the alarm through the red signal and gives a go ahead with a green light and is THE ONE WHO IS AWAKE WHEN OTHERS ARE ASLEEP. EVERYTHING together is A "CHARTERED ACCOUNTANT".

(As expressed in June 2010 in a communication to ICAI)

CA. S.K. Dasgupta (1987-1988)

"Use our intelligence and knowledge for observance of professional ethics leading to fulfillment of social and other objectives keeping in mind ethics is more than law."
(As expressed in June 2010 in a communication to ICAI)

CA. K.G. Somani (1988-1989)

"While technological developments have demanded professional accountants to seek adjustment to higher level of skills, knowledge and performance, there has simultaneously been a movement in the world towards harmonising the widely varying technical and ethical standards and practices of the profession by establishing to the extent possible, uniform standards throughout the world. This is not a small job, by any means. To the extent, varying standards are harmonised, the profession will greatly benefit from wider acceptance by the clients."
(Spoken at the 40th Annual Meeting of the Council of ICAI on 13th Sept 1989)

CA. Arvind H. Dalal (1989-1990)

The profession of Chartered Accountancy is destined to play a pivotal role in the Economic Development of the Country, but it should also help in the efforts of the Government for amelioration of abysmal poverty and other equally important need of removal of corruption in the rank and file.
(As expressed in May 2010 in a communication to ICAI)

CA. K.M. Agarwal (1990-1992)

"Our ethics and competency are the best in the world – capture and show to others. Expose yourself to the world - No one can compete with you."
(As expressed in June 2010 in a communication to ICAI)

CA. N.C. Sundararajan (1992-1993)

"Without courage, we cannot practice any virtue with consistency. Let us adhere to the standards as a self-regulatory measure to face any trust deficiency."
(As expressed in June 2010 in a communication to ICAI)

CA. N.P. Sarda (1993-1994)

"We are perhaps the largest organised profession in the country in the industrial and commercial sector providing management experts, particularly in the field of financial management, systems development, audits, corporate laws, taxation and mangement accounting. Such a vast reservoir of skilled and expert manpower produced by the Institute in the last 43 years or so, without making any claim on the exchequer of the country, is a matter of pride for us."
(Spoken at the 44th Annual Meeting of the Council of ICAI on 17th Jan 1994)

CA. B.P. Rao (1994-1995)

"The Perspective Planning Group (PPG), which was constituted to examine, inter alia, the steps necessary to meet the challenges of change pointed out that the decision of the Council to make Continuing Professional Education (CPE) mandatory, should be implemented expeditiously."
(Spoken at the 45th Annual Meeting of the Council of ICAI on 16th Jan 1995)

CA. Y.M. Kale (1995-1996)

"Council resolutions expanded the list of what could be includible as permissible work to be performed by CAs. Like troops attempting to hold more ground than what their supply lines could sustain, the spread became thinnest at the core. Adjacent competencies waxed, while traditional proficiencies may have waned"
(Excerpts from his article titled "Reminiscences about the profession" as communicated to ICAI in June 2010)

CA. T.S. Vishwanath (1996-1997)

"Any profession grows and thrives, by continuously addressing the evolving societal needs, with integrity, value and vision. That alone, is the basis for continual trust of society. Accountancy profession is no different."
(As expressed in June 2010 in a communication to ICAI)

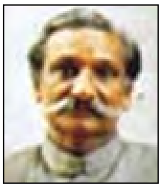
CA. M.M. Chitale (1997-1998)

"The present economic situation in the country as well as in the world at large provides enough challenges to our profession. I strongly feel that the members of our profession have the requisite knowledge and skills to exploit these challenges and convert them into opportunities. As I look into the unknown future, I feel that a more proactive role of our profession, backed by competent members imbibed with good character and the requisite discipline will take us to the right direction. We will have to grapple with the technological innovations in a much bigger way. We will have to maintain and upgrade the quality of our work and achieve specialization to face the competition from within as well as outside. The prestige of the profession depends upon the collective image of its individual member. The credibility of the profession will be enhanced depending upon the manner in which the members of the profession respond to the needs of the Society collectively and remain accountable in terms of their service to the nation."
(Spoken at the 48th Annual Function of the Council of ICAI on 16th Jan 1998)

Late CA. Rahul Roy (1998-1999)

"I believe and have faith that this support (from students and members), which has sustained and propelled our Institute to become one of the largest and most acclaimed professional bodies in the world, will push us higher towards the pinnacle of glory and excellence and, I am proud to say that in this the 50th year of the profession, I can see all signs of this future story begin unfolding itself in all its glory."
(Spoken at the 49th Annual Function of the ICAI on 16th January 1999)

Late CA. S.P. Chhajed (1999-2000)

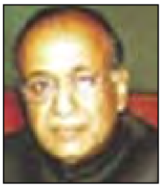


"…Our accounting and auditing standards should be brought on par with international standards to enable the financial statements become more transparent and comparable internationally… The path ahead of the profession is very challenging, but I am sure that with the cooperation of the Council and all the members of the Institute, the profession will be able to meet these challenges…"
(Excerpts from President's message in the February 1999 issue of our Journal)

CA. G. Sitharaman (2000-2001)

"Success is the ability to go from one failure to another with no loss of enthusiasm…Being well-trained professionals, to be in tune with the times, our endeavours must be to continue to attract and to retain the best talents. Excellence is a constant endeavour and it is suicidal to be comfortable."
(As expressed in June 2010 in a communication to ICAI and in his Message published in the July 2000 issue of the Journal)

CA. N.D. Gupta (2001-02)



"The art and science of accountancy does not lie only in balancing Books of Accounts; one who does not balance his life remains a Debtor to Life; So, Excel, but not narrowly; spread your wings; fly like an eagle, and like the eagle, never lose sight of what is below and around."
(As expressed in June 2010 in a communication to ICAI)

CA. Ashok Chandak (2002-2003)

"Much has also been said about US GAAP and its scope. That very scope has been exposed for its inadequacies in terms of corporate failures in US. These inadequacies arise from total dependence on rules, which US system has. As we all know, the tighter a knot is, the easier it slips…That is why in India we follow principle-based accounting rather than rule-based accounting. This may give rise to questions of interpretation, but what it can never do is prove to be inadequate to cover a given situation..."
"Our profession has gone through an ordeal over last one year, in a global sense. Today, we can look back and say that not only has nothing been lost, but many things have been gained. The profession has come back to a position perhaps better than the original one..."
(Excerpts from the President's message published in the July and November 2002 issues of our Journal)

CA. R. Bupathy (2003-2004)

"The accountancy profession, intended mainly for safeguarding the interests of stakeholders, has undergone a metamorphosis over the decades. Sensing the challenges of time and advancement of technology, it is now moulding multi-skilled professionals in the finance function, with emphasis on Duty, Dignity, Discipline and Diligence, capable of providing total business solution and to play a contributing role in the economic development of the nation."
(As expressed in June 2010 in a communication to ICAI)

CA. Sunil Goyal (2004-05)

"Those swimming naked have been exposed in the low tide of economic crisis. On the other hand, fairing well during the economic turbulence, the Indian Chartered Accountants have shown their mettle that they have arrived and are poised to lead the world."
(As expressed in June 2010 in a communication to ICAI)

CA. Kamlesh Shivji Vikamsey (2005-06)

A professional is able to command respect in the society because his motto is "pride of service in preference to personal gain". A person who places public good above his personal gain is a "true" professional. The prestige and confidence enjoyed by a profession, to a great extent, depends on the strictness and the scrupulous manner in which the professional code is interpreted.

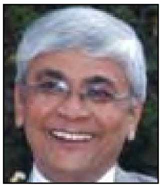
(Excerpts from his message in July 2005 issue of this journal)

CA. T.N. Manoharan (2006-07) (Padma Shri Awardee)

"The emerging areas of opportunities call for different skill sets, knowledge and delivery mechanism… In matters of innovation and empowerment, let us (CAs) swim with the current, but in matters of values and principles, let us stand like a rock. Let us blend dynamism and ethics in order to excel."

(As expressed in his article published in July 2008 issue of this journal)

CA. Sunil H. Talati (2007-08)



"When our country, economy and our profession of Chartered Accountancy is fast growing; I see no fear, no threats and no challenges. There are better and wider opportunities and we have to grab them with comprehensive strength, confidence and competence. We are the watchdogs and every C.A. has to be careful, watchful and must remember and feel that I adore my Profession, I salute my Institute, I respect my Council and I am proud to be a Chartered Accountant."

(As expressed in June 2010 in a communication to ICAI)

CA. Ved Jain (2008-09)

"The education, training, dedication and devotion of the Indian Chartered Accountant are unmatched. And I am quite confident that Indian Chartered Accountants will bring laurels to the country in the same way as the Information Technology professionals have done. The next decade surely belongs to them."

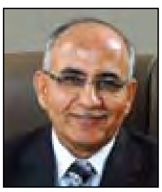
(As expressed in June 2010 in a communication to ICAI)

CA. Uttam Prakash Agarwal (2009-10)

"I have heard somewhere all that is gold does not glitter. My Chartered Accountants Parivaar is amongst all that do not glitter, but the society sure knows the value. The contributions of the CAs will not be less important just because many a time they are unpraised and undermined. The stem, branches and the leaves are ever thankful to the roots that support them."

(As expressed in June 2010 in a communication to ICAI).

CA. Amarjit Chopra (2010-11)



"Indian accountancy profession runs on two legs: one is ethics and another is excellence. The profession cannot run up to the acme of success until and unless both are intact and integrated. Integrity and non-stop addition to skill sets will pave the path to the epitome of professional excellence."

(As expressed in June 2010)

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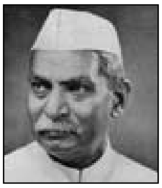
What The Leading Lights Said

Ever since its inception in 1949, the Institute of Chartered Accountants of India, and the accountancy profession it regulates, have all along won the acknowledgement, accolades and admiration of the leading lights of their times in the Indian polity. Presented herewith are the memorable words about the accountancy profession as expressed by some such leaders who rose to the positions of President, Vice President and Prime Minister of our country.

Dr. Rajendra Prasad, President of India, 1954



"The fast increasing tempo of the industrial and economic development of the country makes it imperative that every Chartered Accountant should realise that he belongs to a profession which provides the first line of defence to the unwary public against money grabbers and opportunists. Your responsibility in this matter becomes all the greater because of the autonomy, which your profession enjoys. The confidence of the public in even reliable and well-managed business undertakings would be gravely undermined, if unscrupulous persons were allowed without let or hindrance, to manipulate company accounts or otherwise indulge in malpractices only to serve their own ignoble ends. The Government and the public are therefore alike interested in the maintenance of the independence and integrity of the Accountancy profession, but it is primarily for the profession itself to create conditions favorable to the growth of these qualities in its members."

(Spoken on the occasion of the Opening of the Building of the Institute and Inauguration of the First Conference of the Chartered Accountants of India, on Friday, 2nd April, 1954)

Dr. S. Radhakrishnan, Vice-President of India, 1958

"You (CAs) must do your work selflessly, in a spirit of dedication, in an uncompromising way, not caring for powers, but you must do your work for the sake of the community as a whole… Whatever profession you might follow, you should not forget that every one is an artist in his own line, whether it is in accounting or auditing, writing or doing the job of a sculptor or a painter."

(Spoken at a meeting of the Chartered Accountants of Madras Region held on 5th June, 1958)

Shri Lal Bahadur Shastri, Prime Minister of India, 1964

"No institution can grow, and no profession can really progress if the institution or the profession is not prepared to know its own shortcomings; Your profession is very important and in the present stage of our country when the economic development of the country is paramount, it is essential that the Chartered Accountants should try to do their work loyally and faithfully and set up high standards."

(Spoken as the Union Minister for Commerce & Industry on the occasion of inauguration of Delhi Chartered Accountant Students Association on 26th December, 1958)

Shri Fakhruddin Ali Ahmed, President of India, 1975

"The Chartered Accountants by virtue of their qualifications, experience and training can render valuable services in these difficult times in areas which are vital to economic and industrial growth. It should be the duty of the members of the profession in the present context to approach the problems in an objective and pragmatic manner. Apart from examining accuracy of transactions, the modern auditor should also look into the propriety of such transactions."

(Spoken at the inauguration of first ever Commonwealth Conference of Accountants held in New Delhi from 6th to 8th February, 1975)

Shri Morarji Desai, Prime Minister of India, 1977

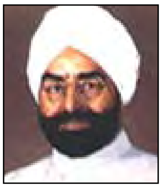
""…for safeguarding our own independence and liberty, we have got to provide some checks which automatically do no allow independence and liberty to be misused… Anybody who misuses power loses it: otherwise democracy is not maintained… You, who are accounting for everybody and also auditing the accounts, can do a great deal to improve standards. But to do that you have got to be vigilant all the time, and very humble."

(Spoken as Union Minister for Finance at 10th Annual meeting of the Council held on 7th September, 1959)

Shri M. Hidayatullah, Vice-President of India, 1979

"The profession of Chartered Accountants was the keeper of the conscience of the business community and its task was not an easy one…When accounts certified by a chartered Accountant were presented to the courts, they instinctively felt that everything must be right because the profession of Chartered Accountants had established itself for honesty; integrity and good work."
(Spoken as the Chief Justice of India at 21st annual meeting of the Council on 16th September, 1970)

Shri Giani Zail Singh, President of India, 1983



"In a rapidly changing world, Accountants as a professional group will have to evolve new concepts and procedures to meet the varied demands made by society on its skills. The Accountant today is not merely a recorder of financial transactions or an Auditor, but also a key member of the management team of any organisation. In a developing economy, it is the Accountants who are responsible for ensuring that scarce resources are utilized in the most economic fashion and that different manufacturing and other processes are run to the best possible advantage of the organization as well as the society.
(Spoken at 10th CAPA Conference in Siri Fort Auditorium in New Delhi on 21st November, 1983)

Shri Atal Bihari Vajpayee, Prime Minister of India, 1998

"The Indian Chartered Accountants have succeeded in meeting the rapidly changing demands of the Indian economy in this era of liberalization and globalization. This could not have been possible without the institute laying special emphasis on continuous education and training of your members. Another feature of your Institute which pleases me is that it is perhaps the only Institute in the world which undertakes the complete range of activities relating to its members and students, and I am particularly happy to note that you have made special endeavours to articulate accounting and auditing standards and improve the quality of corporate functioning…"
(Spoken at the Inauguration of Golden Jubilee Celebrations of the Institute on 1st July, 1998 at New Delhi)

Shri Bhairon Singh Shekhawat, Vice President of India, 2003

"I compliment the Institute of Chartered Accountants of India for having pioneered the initiatives for creating professional awakening, facilitating identification of concerns and making comprehensive recommendations on issues relating to conduct of negotiations for various agreements of WTO and their implementation... Friends, you are highly qualified professionals working in every sector of economy and are spread over every part of the country. You are in a unique position to ensure that everyone remains on the right track leading to the path of progress."
(Spoken at the function to release the document "The WTO- Road Ahead" at New Delhi on 22nd February, 2003)

Dr. A.P.J. Abdul Kalam, President of India, 2005

"Over the years ICAI and its members have made a name for themselves in the development of discipline as well standards of accounting…One of the national challenge is: How do we get maximum economic benefit for the given investment? I believe this is your core competence… The CAs have an integrated experience of auditing, financial advice and financial management and providing leadership to certain industries and establishments…Time has now come for the Chartered Accountants to elevate themselves from component audit to system performance audit. How are you going to prepare yourselves from now onwards for celebrating the year of completing the 100 years of service in auditing by the year 2049? Hence the vision of ICAI can be: 'ICAI will transform into a Financial Management and financial advice organisation with focus towards economic development of the nation and enhancing the growth of GDP…"
(Spoken at the inauguration of ICAI's International Conference on Accounting Profession: Adding Value To New Horizons Of Economic Growth, at New Delhi on 1st September, 2005)

Dr. Manmohan Singh, Prime Minister of India, 2008

I compliment you for the high standards of professionalism that you have come to be known for. An Indian chartered accountant is recognized worldwide as being among the best and the brightest in the profession…..Your Institute has served our country with great distinction…..The Institute of Chartered Accountants of India has been at the forefront in the development of our accounting profession….Yours is one of the premier accounting bodies in the world today and this is a matter of great pride for all of us….Indian Chartered Accountants have truly earned a name and fame for themselves like so many of our professional workers….I am, therefore, happy to learn that your Institute has faced these challenges by creating a large base of high class Chartered Accountants, and developing high quality financial reporting standards……… I commend the Institute's commitment to the convergence of accounting, auditing and ethical standards with international best practices and improving corporate governance.
(Spoken at the inauguration of Diamond Jubilee celebrations of ICAI on CA Day on 1st July, 2008)

special write-ups

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कौटलीय अर्थशास्त्र [२ अधि०

शुल्काध्यक्षः शुल्कशालां ध्वजं च प्राङ्मुखमुदङ्मुखं वा महाद्वाराभ्याशे निवेशयेत् ॥१॥

शुल्काध्यक्ष को चाहिये कि वह शुल्कशाला की स्थापना कराये, और उसके पूर्व तथा उत्तर की ओर, प्रधान द्वार के समीप, एक ध्वजा (पताका) लगवाये जोकि शुल्कशाला की चिन्हभूत हो ॥१॥

शुल्कादायिनश्चत्वारः पञ्च वा सार्थोपयातान्वणिजो लिखेयुः ॥२॥ के कुतस्त्याः कियत्पण्याः क चाभिज्ञानमुद्रा वा कृता इति ॥३॥

शुल्काध्यक्ष, शुल्कशाला में चार या पांच पुरुषों को नियुक्त करे, जोकि लोगों से शुल्क (चुंगी) ग्रहण करते रहें, और जो व्यापारी आदि अपने माल को लेकर उधर से निकलें, उनके सम्बन्ध में निम्नलिखित बातों को लिखें— ॥२॥ उनके नाम, जाति आदि, उनका निवास-स्थान (अर्थात् वे व्यापारी कहां के रहने वाले हैं); उनके पास की विक्रेय वस्तु का परिमाण, और किस स्थान में उन्होंने अपने माल पर यहां की विशेष मुहर लगवाई है। (अर्थात् किस अन्तपाल आदि ने उनके माल को देखकर उस पर अपनी मुहर की है, अथवा की है या नहीं) ॥३॥

अमुद्राणामत्ययो देयद्विगुणः ॥४॥ कूटमुद्राणां शुल्काष्टगुणो दण्डः ॥५॥

जिन व्यापारियों के माल पर वह मुहर न लगी हुई हो, उनको उस देय अंश से दुगुना दण्ड दिया जावे (जो अंश, उसे अन्तपाल के पास देना चाहिये था, उसी का दुगुना दण्ड देना चाहिये) ॥४॥ तथा जिन व्यापारियों ने अपने माल पर नकली मुहर लगाई हो, उनको उस शुल्क से आठ गुणा दण्ड दिया जावे ॥५॥

भिन्नमुद्राणामत्ययो घटिकास्थाने स्थानम् ॥६॥ राजमुद्रापरिवर्तने नामकृते वा सपादपणिकं वहनं दापयेत् ॥७॥

जो व्यापारी मुद्रा लेकर उसे नष्ट कर दें, उन्हें तीन घटिका तक शुल्कशाला के ऐसे हिस्से में बैठाया जावे, जहां पर आने जाने वाले अन्य सब व्यापारी उनको देखें, कि इन्होंने अमुक अपराध किया है। यही उनका दण्ड है ॥६॥ राजकीय मुद्रा के बदल देने पर, अथवा विक्रेय वस्तु का नाम बदल देने पर, पण्य को ले जाने वाले पुरुष को (अर्थात् जो पुरुष विक्रेय वस्तु को ले जावे,

Competition Law and Role of CAs: The Future Perspective

In today's financial world, it is difficult to imagine any business or financial transactions where Chartered Accountants or Financial Analysts do not have a role. Whether it is preparation of a balance sheet, filing of an income tax return, carrying out internal audit, getting financial accounts certified, bringing the necessary accountancy discipline, tracking the ongoing financial transactions or deficiencies for shareholders, or preparation of project report to start a business, financial engineering in loan agreements between the bank and the enterprises, valuation of stocks in case of private placements, preparation of representations for tax concessions before the budget for submission to Ministry of Finance, etc. it is difficult to consider any situation where the Chartered Accountants may not have a role. In today's business, Chartered Accountants and business are so closely intertwined that it is not possible to imagine one without the other.

Dhanendra Kumar[1]
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Competition Act, 2002 (the Act) came into being after extensive consultations with the stakeholders, as a major development in the regulation of market after economic liberalisation. The enforcement provisions of the Act, however, came into being only in 2009 after the requisite constitution of the Competition Commission of India (the Commission) under the Act, with the appointment of a Chairperson and the Members. Section 3 of the Act relating to anti-competitive agreements and section 4 relating to abuse of dominance were notified in May 2009 and this resulted in a paradigm shift in the market discipline. Under the Act, these sections impose considerable discipline on enterprises or associations in their behaviour, including possibilities of cartels, or limiting or controlling production, supply, provision of services, allocation of markets, etc. Further, there are stringent rigors stipulated for bid rigging or collusive behaviour. Under the Act, these could extend up to three times of the profit of the enterprise for each

[1] *The views in the article are those of the author and not of the Competition Commission*

year of continuance of such agreement or ten percent of its turnover, whichever is higher. All these are matters where Chartered Accountants have not only to sensitise the businesses with whom they may be associated but also assist the Commission during consideration of cases.

Likewise, the abuse of dominant position under section 4 of the Act stipulates several ingredients which are all in the domain of Chartered Accountants. These would include determination of the dominant position, relevant geographic market or product market, predatory pricing which means the sale of goods or services at a price below the cost to reduce competition or eliminate competitors etc.

The provisions of sections 5 & 6 under the Act, relating to regulation of combinations, acquisitions, mergers or amalgamations are yet to be notified; however, the provisions cannot be implemented without the involvement of Chartered Accountants. Their expertise would be necessary in computation of the value of assets, definition of Group, matters relating to 'control' of the affairs or management of enterprise, value of goodwill, value of copyright,

"The provisions of sections 5 & 6 under the Competition Act, 2002 relating to regulation of combinations, acquisitions, mergers or amalgamations are yet to be notified; however, the provisions cannot be implemented without the involvement of Chartered Accountants. Their expertise would be necessary in computation of the value of assets, definition of Group, matters relating to 'control' of the affairs or management of enterprise, value of goodwill, value of copyright, patent, etc."

patent, etc. In fact, the phraseology of the provisions stipulates that "the value of assets shall be determined by taking the book value of assets as shown, in the audited books of accounts of the enterprise, in the financial year immediately preceding the financial year in which the date of proposed merger falls, as reduced by any depreciation and the value of assets shall include the brand value of goodwill, value of copyright, patent, etc." None of these would be feasible without close involvement of Chartered Accountants.

Under the Act, the Commission has to undertake suitable measures for competition advocacy, creating awareness and imparting training about competition issues. This work can best be undertaken by Chartered Accountants who are the brains and key functionaries involved in any business activity, and that brings us to voluntary self-compliance by businesses, which not only could save any possible problems going forward, but also be construed as a mitigating factor in support of the business concerned in case of any situation of misdemeanor. Altogether, the Commission views the fraternity of Chartered Accountants as the most significant group of its friends and stakeholders who can play a really significant role in propagation of competition culture in the market as envisaged in the Act.

The Act has a specific section 35 dealing with authorized representatives who can appear before the Commission. Amongst the different professionals who can attend proceedings before the Commission are Chartered Accountants. As stated in the previous part of this article business and Chartered Accountants have become closely intertwined and it is impossible to think of one without the other. In the business transactions, it is the Chartered Accountant who is well equipped with all the intricacies

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of the financial health of an enterprise. He has access to the knowledge of the production and supply chain of the business enterprise, cost particulars, etc. Therefore, by way of training and exposure, Chartered Accountants are fully equipped with the technical know-how and access to play an important role in assisting the clients in terms of dealing with competition law issues as well as assist the Commission.

Thus the commencement of the enforcement of the competition law from May 20, 2009 has already opened totally new and challenging avenues to the community of Chartered Accountants. These avenues and challenges are to grow bigger and wider once the remaining enforcement provisions of the competition law are also brought into force by the Government.■

The Chartered Accountant of the 21st Century

"Our (Indian CAs') future is linked to the growth of our economy, and with the best economic performance ever in the world, we have many things going for us. In the core area of accounting India is converging with IFRS. This is a seminal achievement for India as we will be aligned with the best standard in the world. But the bigger benefit is that we have 160,000 CAs with many thousands to come. We are the second largest accounting professional group in the world and with our convergence with IFRS, the market for our services will be global''

CA. T. V. Mohandas Pai
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India has seen tremendous change in the last 10 years. Our GDP is now $ 1.3 Trillion. We are growing at 8-8.5 per cent per annum, we have substantial foreign exchange reserves. If we continue to grow for the next ten years, even at 7 per cent per year, we will double our GDP to 2.6 Tr$ by 2020, and if we grow from there at even 7 per cent for the next 10 years, we will have a GDP of 5.2Tr$ by 2030. China has grown at 10 per cent per annum for the last 25 years and there is no reason why India cannot grow at the same pace. We will add to our GDP in 10 years what we have added in the last 60 years! And if we continue our onward march we will add to our GDP in the decade of 2020-30, what we have added in the last 70 years! The next 20 years will be the most exciting period in the long civilizational history of India.

Is this possible? Yes, it is, we have a savings rate of 35 per cent of GDP and an investment rate of 37 per cent of GDP, we have a healthy capital output ratio and are not dependent on borrowings from the rest of the world. We have a sophisticated and safe financial system which can support our need, a robust Corporate sector, a fantastic set of Global leaders and above all a strong professional base to make this happen. The entrepreneurial urge of an Indian is visible all around, and globally too, with our leaders having a global outlook. Can our political system give us the governance to make this happen? Well, it is bumbling along, not a threat to our growth, acting as a safety valve for all the stresses and pressures within our social structure as we grow and growth affects our nation. We are a very young country with an average age of 27 years, with a population growth of 1.3 per cent per annum, population is an asset, not a liability today with about 600 million people below the age of 30 and about 45 million below the age of 20. Our educational system is currently not up to our needs and it needs massive change and has cast a very heavy burden on the industry and is a drag on our growth, beset with old ideas, but the middle class is bringing about this change, driven by their increasing aspiration for a better life, borrowing money from the banks to pay for their children's education. Overall we have much to be optimistic about and much to celebrate, and certainly very much to look forward to!

What about us, Chartered Accountants, how will the future impact us?

Our future is linked to the growth of our economy, and with the best economic performance ever in the world, we have many things going for us. In the core area of accounting India is converging with IFRS. This is a seminal achievement for India as we will be aligned with the best standard in the world. But the bigger benefit is that we have 160,000 CAs with many thousands to come. We are the second largest accounting professional group in the world and with our convergence with IFRS, the market for our services will be global. Today, the world faces a shortage of accounting professionals, specially

"With our economy going up 3 times in the next 20 years the demand for our services will go up manifold. Over the last 10 years we have seen our billing rates go up and members enjoy the prosperity that is their due as a noble profession. Our brethren have learned to bill for the value they deliver and will deliver. But the increasing sophistication of our economy and of our corporate sector will call for a different level of skills that we need to be trained for. Accounting will be the core competence but along with that our skills for Auditing have to be very different and much larger."

with IFRS being the de facto standard and India is poised right there to take full advantage and is perhaps the only country in the world which can take advantage of and have the capacity and capability to provide accounting services to the whole world. I see the rise of a global profession from India, with a clear thrust to leadership just as the Indian software industry is today a global leader. In 10 years from now, our countrymen will speak about us in the same manner that they speak about our software industry today, a globally competitive and thriving profession. This is the strategic advantage that we will get and this is why our leadership in the ICAI and in the government have accelerated our move to converge with IFRS.

With our economy going up 3 times in the next 20 years the demand for our services will go up manifold. Over the last 10 years we have seen our billing rates go up and members enjoy the prosperity that is their due as a noble profession. Our brethren have learned to bill for the value they deliver and will deliver. But the increasing sophistication of our economy and of our corporate sector will call for a different level of skills that we need to be trained for. Accounting will be the core competence but along with that our skills for Auditing have to be very different and much larger. Auditing will become more risk based, more technology based, more enterprise and industry based. This will call for increasing our competence and training with increased specialisation within the audit firms. This will be a fundamental change in the way we do things today, specially for our upcoming firms. While the global firms have the capability to invest in systems and technology to leverage this opportunity, our Indian firms will need to invest hugely and this will call for a change in our billing practices. The profession cannot survive on under billing any more in the future.

> **"The complexities of handling global business are many times than those of a local business. CAs will have to up the ante in terms of capability and expertise and compete with their peers across the world to meet the needs of the Indian Multinationals! The billing will be lucrative but the work complex. This will call for consolidation within the professions, with large partnerships, if our members have to compete. They will also need many partners with specialized skills."**

Taxation services will be global as tax systems converge around the world and technology takes over here too. Today in India we have e-filing and the percentage of e-filing will only increase. The tax assessment process will become simpler and less legalistic, with institutional mechanism to reduce disputes. The complexities in the law will reduce and there will be stability in the system as rapid changes will no longer be possible. The tax system will become more transparent. Globalisation will increase the interaction between nations and exchange of information will become common with less secrecy and more transparency. CAs need to understand and imbibe global tax practices and be prepared to advise their clients who will have different needs. This once again will change the way we operate today and call for increased investment and increased training and capability, with more specialisation.

Our corporates will be global players and will have a different set of needs. As their business spreads across the world, they will grapple with global taxation, establishment of PEs, structuring and convergence of tax laws. They will need advice on country strategies, structuring, transfer pricing across the global, financial matters, global M&A and above all the specialisation to meet their needs. They will operate in a free market system where they will work with firms which can meet their needs, irrespective of national identity. The complexities of handling global business are many times than that of a local business. CAs will have to up the ante in terms of capability and expertise and compete with their peers across the world to meet the needs of the Indian Multinationals! The billing will be lucrative but the work complex. This will call for consolidation within the professions, with large partnerships, if our members have to compete. They will also need many partners with specialised skills. This is a weak area for us as the profession is not responding with the speed it should and seem to be losing out to global competition. In an open competitive system only the best and most skilled will win and this calls for a paradigm shift in our thinking

and manifold investment in the partnerships. As it is good, global talent is scarce and may become scarcer.

The area of consulting will again offer immense opportunities to our members. Consulting in finance, enterprise matters, technology, risk management, to state a few will be in great demand. This not only needs domain skills and specialization but also the ability to market and communicate. Somehow, we have been hesitant talking about ourselves and communicating effectively our skills. We have to train our members in communication and presentation skills right from the time they enter the profession as students. They should learn how to network, how to have a conversation with business leaders and how to think out of the box in several matters. To break a taboo, we also need to learn to market ourselves without fear or favour and if regulations need to be changed, we have to change them. We work with outdated ideas and regulations in this area.

Our members will be in great demand in future, if they can meet the needs of the emerging opportunities. Corporates will compete with our firms for the best talent, paying handsomely in the manner they are doing even today. Their need for professionals is so great that they will soon start taking away the talent nurtured in our firms and raise compensation all around. The ICAI has to seriously consider improving the training facilities that it offers to its members and students and invest in technology rapidly. It will have to restructure its examination system and make it technology based. It will have to improve its marketing so that the best young talent sees the profession as a good place to work in. The fight for talent within India will intensify and we must be seen as the best place for bright young students to make their careers. The ICAI has to be more global than now, with many more chapters, with a larger, globally experienced staff to meet the needs of its members.

I have seen the emergence of India as a global economic power, have seen the positive power of globalisation on the prepared mind, seen the emergence and growth of a globally competitive service industry, seen economic policies change, seen India respond to the changes, though a bit slowly, seen the profession change and respond and have an open mind. I am optimistic about our future, about our ability to take full advantage of this great opportunity, about the ability of our people to understand this change and invest in our children. I believe that India will be amongst the top three economies in the world in the next 20 years. Today, I am confident that our profession will be the force multiplier for our country's rise to global dominance. Change is much more rapid than most of us believe and the future is ours to make! ■

Role of the Chartered Accountancy Profession – A Look Ahead

I have been privileged to be part of the CA profession for over three decades now. Over this period of time, I have seen the evolution of the profession at close quarters. As I reflect and look back, it is indeed staggering to see the quantum of shift in the business environment and the finance function over this time – and the key role that the CA professionals have played in this journey. It has indeed been a roller coaster ride – exploring unchartered territories, riding the wave of opportunities, enduring economic crises and help in creating a sustainable organisation. But in the end of it all, the profession – and finance function – has emerged stronger and wiser.

CA. Suresh Senapaty
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But past laurels do not guarantee future success. As the economic and business environment changes and newer technological and social models evolve, it is imperative that the profession recognises these shifts and prepares itself proactively. In my view, there are five major roles that the finance professionals of tomorrow should prepare themselves for.

1. Custodian of Stakeholder Values

This is perhaps the most traditional of the finance function roles. CAs have historically been the custodian of the "assets" of the organisation. While finance function continues to the custodian of the assets, the concept of assets has evolved over the ages. The organisations of the future will have four kinds of assets.

(a) **Physical Assets** - Finance function has traditionally been responsible for the safeguarding and reporting of physical assets of the organisation. The role involves highest standards of book keeping, transparency in reporting and maintenance, verification and risk management of physical assets.

(b) **People Assets** – As business evolved, employees assumed greater importance and the mandate of finance function expanded to play an active role in people policy formulation and tracking and reporting of key employee metrics.

(c) **Intellectual Assets** – With technology advancement, assets will expand beyond the physical and intellectual property as a concept will take increasing prominence. Finance has to play a key role in protecting the intellectual property of the organisation. The challenge in protecting IPs is accentuated by continuous shifts in technology paradigm and the finance function needs to keep pace ensuring protection.

(d) **Social Assets** – Sustainability has increasingly become a key parameter on the basis of which corporate are being evaluated. The philosophy of Triple Bottom Line – Profits, People and Planet is gaining universal acceptance. Global Reporting Initiative (GRI) has pioneered reporting for organisations on sustainability by laying down comprehensive sustainability reporting framework. Highest level of corporate governance is no longer a differentiator but a hygiene factor. Finance will play a key role in ensuring that the organisation displays the same stewardship for the assets of the society as it has traditionally been to the assets on its own balance sheet. Finance professionals also play a role in Government advocacy by raising concerns, participating in forums and providing inputs on issues which impact the economy and businesses.

In addition to protection of assets, finance function, through investor relations, is the voice of the investors to management in organisations. At the same time, Investor Relations would also articulate the strategy and differentiation of the organisation to the investors.

“CAs need to understand and adapt to the technology changes, be it cloud or mobility or social media. Information systems and archival needs to be aligned to these technology changes. Compliance paradigms in this environment could be different – for e.g., questions of where data resides in a cloud environment is not apparent. CAs should be geared up to address and influence regulations around these.”

2. Business Support

The role of the finance function has been evolving from “record keeping” to being the “Co-pilot” along with the CEO – a move from merely owning numbers and approvals to driving business decisions and implementations. In the role of co-pilot of the organisation, finance is expected to play a more active role in business strategy formulation and implementation. The key areas of focus will be:

(a) **Anchoring Organisation Strategy-** Finance professionals need to drive rigorous financial analysis of new investments and evolution of new business models. Finance needs to assist business by creating and monitoring measurement metrics to monitor progress of strategy and recommend course correction. Further, it plays a crucial role with respect to the inorganic strategy of the organisation – financial analysis to help decide on ‘make or buy’, optimal structuring of deals and creating synergies to make M&As successful. Finance would play a major role in post-merger integration as well.

(b) **Broad-basing P&L Ownership -** Finance professionals will play a critical role in inculcating culture of P&L ownership at all levels of business. CAs need to create dashboards and train non-finance managers on key metrics that drive profitability.

(c) **Optimising Decision Enabling Information Flow** – Finance function has always “owned” financial numbers. However, reporting requirements has moved way beyond traditional financial reporting to reporting on business drivers which enable decision making on revenue enhancement or margin improvement. In future, CAs will have to create dashboard approach to facilitate decision making. Finance also needs to inculcate strong forecasting processes to avoid surprises.

(d) **Cost Rationalisation** – CAs can play an active role in sustainable cost optimisation, by driving business to change their cost structures. In addition, they can play a significant role in driving tax efficiencies through innovative structuring of business.

3. Risk Management

As one introspects on the economic crisis, it is clear that there has been a breakdown across multiple levels in the organisations – but none more than in its ability to manage risks. As the world re-adjusts to the new normal, CAs need to wear the hat of assessing – and to the possible extent mitigating - exposure of the organisation. Internal Audit also will play a critical role in periodically assessing the governance frameworks and test-check control weaknesses in the organisation. Risks Management could broadly span across the following buckets:

(a) **Business Risks** – Monitor and

assess business risks of the organisation and take steps to mitigate them. CAs need to play an active role in setting up strong governance frameworks, focus on compliance to contractual terms and develop early warning signals to mitigate potential blow-ups.

(b) **Treasury Risks** – The volatility in the global economy has resulted in huge fluctuations of forex rates, interest rates and commodity prices. Finance professionals have to play an effective role in treasury management to minimise the impact of volatility. Treasury function will need to focus on innovations to ensure adequate liquidity in the organisation at the most optimal cost

(c) **Counter-party risks** – The economic crisis has highlighted the importance of a sustainable eco-system. The finance function should continuously evaluate the financial strength and sustainability of customers, suppliers, dealers, bankers, etc.

(d) **Technology Risks** – CAs need to understand and adapt to the technology changes, be it cloud or mobility or social media. Information systems and archival needs to be aligned to these technology changes. Compliance paradigms in this environment could be different – for e.g., questions of where data resides in a cloud environment is not apparent. CAs should be geared up to address and influence regulations around these.

4. Globalisation

The business environment has become global – it would be difficult to visualise a world in the future where organisations can operate in silos. As organisations become global, finance function needs to become "globally local". The function needs to develop awareness of local laws, manage inter-cultural sensitivities, coordinate across multiple time zones and have multi-diversity teams.

Let me share an example – if you are setting up a subsidiary in a new country, you would soon be asking questions such as - whether I have requisite approvals from India and local country government to set this up, whether I can own real estate in that country, what will be local taxes and levies, do I need approval to hire employees and what kind of compensation structure I need to adhere to, how do I organise for my India employees to work there (visa regulations), whether there is a need to publish local GAAP books and filed to local authorities - and so on. Every curriculum teaches concept and knowledge. It is the 'concept' portion of Chartered Accountancy course that will come in handy to you in dealing with globalisation of issues. Ability to quickly grasp issues and finding practical solutions as well as dealing with diverse culture backgrounds will be critical. To use an analogy, a CA must emerge as a fine sportsman, who can pick up any game and play it well – be it cricket or baseball - and not someone who is just good at one game on his or her home turf.

To succeed in future, a 'good team' may not be sufficient. We need a 'winning team' and that's where talent-management comes in. As professionals, how we attract, train and retain other best professionals. Creating right reward mechanism, infusing pride and passion in role and igniting hunger in the team to create 'best in class' solution every time, will become critical for every Chartered Accountant in a leadership role. Measure of 'professional excellence' will not just be 'functional excellence', but also 'individual excellence' and 'influencing excellence'.

5. Talent Management

What makes one finance organisation better than the other? Three things actually: people, people and people. The smarter the individual team-members, the smarter the team. Chartered Accountancy profession has traditionally led the teaming approach better than many other professions. During our articleship, we spend enormous time working in teams completing audit, tax and compliance assignments. It is time we need to take it to next level. To succeed in future, a 'good team' may not be sufficient. We need a 'winning team' and that's where talent-management comes in. As professionals, how we attract, train and retain other best professionals. Creating right reward mechanism, infusing pride and passion in role and igniting hunger in the team to create 'best in class' solution every time, will become critical for every Chartered Accountant in a leadership role. Measure of 'professional excellence' will not just be 'functional excellence', but also 'individual excellence' and 'influencing excellence'.

Summary

In summary, with the emerging complexities in the business environment, I see an enhanced role for finance professionals in the future. The future is bound to be volatile, which will pose both great threats and great opportunities. Without the strength to endure the threats, one cannot seize the opportunities. It is within the process of endurance that opportunity reveals itself. Finance function will play a key role to ensure that the organisation has the endurance to withstand challenges and seize opportunities. The world is changing at a rapid pace – and the CA profession needs to stay ahead of the curve. ■

Emerging Role of Internal Audit as a Risk Mitigant

In a fast transforming banking industry, risk management is assuming greater challenge. Out of all the risks, operational risk is omnipresent needing more effective systemic controls and monitoring systems. With the adoption of Basel–II standards of risk management and capital adequacy, many changes are made to refine the risk management tools. Many software are acquired and mathematical models have been put in place to improve the risk management architecture but the basic knowhow lies among the line functionaries. Since operational risk is a newly recognised risk in Basel–II, its measurement and mitigation has gained more importance.

M. D. Mallya
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In this context, internal audit has become a critical management tool, not only to satisfy about the financial accuracy of books of accounts, quality of operations, maintenance of subsidiary records but also to provide a deeper insight into the efficiency of principles, policies and systemic controls of the organisation. Going by the pure theme of internal audit, it is an examination and verification of an organisation's accounting records and supporting documents by a responsible professional who has the qualification and competence to conduct an internal audit. Internal audit is usually conducted by a senior officer of the organisation well versed with the policies and prescriptions of the bank.

Concept of Internal Audit

Conceptually, internal audit is one of the key systemic controls to improve the operational efficiency of a bank. The internal audit function is one of the key fundamental devices of having "checks and balances" for sound corporate governance. Now more than ever, a robust and objective internal audit function, with the skills to identify risk control problems and with an appetite to pursue its concerns, is essential in the proper discharge of internal audit responsibility.

Internal audit is an independent objective assurance and quality activity designed to add value and improve bank's compliance standards. The use of internal audit process should not be construed as an obligatory function, but it needs to be used to make a gap analysis in the systemic architecture which, in the long run can help in imbibing best management control practices. Internal Audit system can be a futuristic tool to improve the governance and quality of management practices and operational efficiency. In the emerging context of deluge of financial products from global markets, banks are susceptible to various forms of risks such as market risk and credit risk. There are granular risks associated with major risks that reckon the quality of internal controls.

In order to enlarge the utility of internal audit as a function, it is necessary to reiterate that banking is a highly leveraged function with associated risks and, in many respects, a very competitive low-margin business. Losses from a single bad loan or weak control system can eliminate the gains on many other transactions. Obviously, the banks undertake banking transactions with utmost care, diligence and prudence using best practices. Despite institutionalising an effective internal audit system, the continued ability of line functionaries to identify and manage risks to maintain the proper internal controls is critical in banking organisations even as they seek to increase profits and profitability.

Therefore, the internal audit function in banks can be an effective systemic control device to bring about better management control systems. With the enhanced quality of internal audit, banks are able to address some of incipient operational flaws which if addressed in time could enhance the quality of controls. In order to make the internal audit much more creative, assimilation of the international best practices is one of the most important factors.

Role of Internal Audit

The primary role of an internal audit function is to provide a reasonable assurance to the bank that the standard of compliance, maintenance of accounting system, accuracy in the transactions and data dissemination, transparency and disclosures are as per the provisions set by the bank's policies within the overall regulatory framework. It should also be able to vouch the adequacy and effectiveness of the risk management control systems operating in the bank. The secondary role is to suggest ways and means to bring about further improvements in the systemic control and compliance systems.

The secondary role is to strengthen and improve the risk management and its control framework through a progressive move towards the best practices followed in the industry. With the risk profile fast undergoing change, internal audit team should be able to scrutinise the whole process of risk management controls, systems and procedures, generation of data, validation system of data, asset liability management system and so on, in order to identify the gaps. They should also be able to constructively provide a robust feedback to the management so as to bring policy changes in due course to improve the compliance standards.

Emerging Role of Internal Audit

Basel-II accord stipulates that the internal audit should be able to capture in a larger way the application and effectiveness of risk management procedures and risk assessment methodology and critical evaluation of the adequacy and effectiveness of the internal control systems. The banks and other institutions will be required to introduce and implement risk focused internal audits and self audits to improve effectiveness of risk management architecture.

With Indian banks imbibing structured financial products and derivatives, they get more exposed to the risks and hence the surveillance needs to be enhanced. With risk weights now getting aligned to the credit rating, the credit monitoring system becomes a critical part of risk management system and maintenance of capital adequacy ratio. Hence, the internal audit should be able to track such processes and systems.

In order to become a valuable support for the bank in its effort of continuous monitoring and improving risk management, the internal audit should focus on the provision of assurance regarding the risk management and internal control system. The audit must play a more pro-active role in the improvement and formalisation of the risk management and internal control system. The auditors are expected also to suggest methods to improve the processes in the main business areas in the bank.

The internal auditor should obtain an understanding of the control environment sufficient to assess management's attitude, awareness and actions regarding internal controls and their importance in the entity. Such an understanding would also help the auditor to make a preliminary assessment of the adequacy of the accounting and internal control systems.

Challenges for Internal Auditors:

- Understanding the particular business profile of the unit.
- Keeping abreast of the dynamics of market environment
- Keeping a tab on the changes in the internal regulations that governs the business parameters.
- Constantly following up the regulatory changes that impact the working of the bank from time to time.
- Acquiring necessary skills and competencies on a continuous basis that keeps the learning path active.
- Should know all aspects of the operations to perform the functions of internal audit.
- Should be conversant with business specific processes and nuances of operations.
- Ability to maintain proper coordination with line functionaries to better understand the local practices.
- To maintain a proper balance between responsibility as internal auditor and constraints of an entrepreneur who transacts business in the bank.
- Acquiring a holistic quality of a professional banker with an eye of an auditor.
- Practices and policies of internal control in peer banks so as to keep an eye on the business needs.
- The auditor has to be well versed with the information systems used in the bank and should possess IT skills to conduct the audit.

With the integration of global financial markets, business risks in banks keep changing needing better systemic controls and surveillance mechanism. Keeping in view the increasing role of internal audit function in banks and rising risk environment, it is necessary to transform the institution of internal audit into a more robust mechanism. The training, skill building, dissemination of knowledge and information to the internal audit team will have a more significant role in mitigating the risk. Internal audit can also impart a better culture of sensitizing line functionaries towards emerging risks in the business environment. The internal audit system can therefore, play an active role in detecting and mitigating the risk and thus become an effective risk management tool.

Role of CAs

In banks, internal audit is highly important for the safety and soundness of operations. Internal audit in banks is a critical and a technical area. Thus, it becomes necessary that the internal audit function is carried out by those who have a substantial knowledge of internal controls, requisite experience and expertise. Chartered accountants are greatly suited for the task of internal audit. CAs as professionals can carry out internal audit with better discipline, control and responsibility. They can help build a control structure that provides assurance to those invoved. Chartered Accountants with their expertise and experience can make sure that funds are accounted for and every transaction is recorded. Risk management in banks is a difficult task which can be handled by CAs with utmost efficiency.■

Improving Public Sector Financial Reporting

Before the disastrous oil spill in the Gulf of Mexico, the crisis dominating international headlines was government debt, spiralling out-of-control in Greece and other European countries. Yet, while the spill may have diverted attention away from the issue of sovereign debt, the problem has not gone away. The financial reporting and disclosure of most governments globally still has considerable room for improvement. And given the dire fiscal positions of many governments, the need to improve the management of public sector resources has never been greater.

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Fortunately, though—using a relatively straight forward, if politically delicate, fix—governments today have an opportunity to dramatically improve their resource management in the future: A switch from cash-based to accrual-based accounting.

Benefits of accrual-based vs. cash-based accounting

Today, many governments do not even have balance sheets, as conventionally understood. Rather, they operate on a cash basis—meaning they do not account for and report significant items such as liabilities for public sector pensions or financial instruments.

Under accrual-based accounting, these items are recorded and recognised in the periods to which they relate (and not only when cash or its equivalent is received or paid). Most significantly, accrual-based accounting measures the assets and liabilities that are most relevant to fiscal policy and long-term fiscal sustainability, but which are not necessarily recorded by cash accounting.

Mr. Vinod Rai, India's Comptroller and Auditor General, should be commended for his commitment to adopting accrual-based accounting. Mr. Rai clearly understands that accrual-based accounting offers a far more complete picture of a government's financial performance and position.

Accrual-based accounting also improves financial management and reduces the risk of reporting fraud, because when significant financial events are recorded, they are more likely to be well managed and less likely to be manipulated.

Finally, a switch to accrual-based accounting would vastly improve the incentives faced by many gove-rnment leaders. Under accrual-based accounting, the impacts of

The accountancy profession has an important role to play in resolving the current crisis and in building a reformed international financial system. That is why, later this month, IFAC will submit a series of recommendations to G-20 leaders at their June meeting in Toronto, Canada. The recommendations emphasise the need for greater transparency and accountability in public sector finances, and encourage G-20 leaders to push for the adoption of accrual-based accounting and IPSASs in governments throughout the world.

financial decisions are reflected in the accounts much sooner, so leaders would be forced to deal with the consequences of their choices, rather than simply handing them off to future generations.

It is no surprise, then, that governments require all publicly-listed, private-sector companies to use accrual-based accounting. Indeed, accrual-based accounting is a fundamental tenet of strong accounting and reporting for public companies, and should be for governments, too. In fact, the reasons why governments require companies to use accrual-based accounting—increased transparency, improved decision-making abilities for investors, etc.—apply with equal or greater force to governments themselves. It's not only investors who need this improved information. Citizens need it, too, to hold government accountable for its actions.

International Public Sector Accounting Standards

The International Public Sector Accounting Standards Board (IPSASB)—an independent standard setting board supported by IFAC—has a comprehensive set of accrual accounting standards for the public sector, named International Public Sector Accounting Standards, or IPSASs.

IPSASs—the government equivalent of International Financial Reporting Standards (IFRSs)—have been adopted by the United Nations, the Organisation for Economic Cooperation and Development, and the European Commission (for its own financial statements), among others. IPSASs have also been adopted for some—though not nearly enough—national level governments, such as Switzerland, Austria, and South Africa. And the momentum toward adopting IPSASs is definitely building globally.

The adoption of IPSASs by governments worldwide would not only improve the quality of financial information reported by public entities, it would also facilitate the comparability of such information on a global basis. As a universal set of public sector accounting standards, IPSASs would provide better information regarding systemic risks associated with government debt.

The adoption of IPSASs would represent a significant step forward in achieving the financial transparency of national governments worldwide. IPSASs are designed to apply to the general-purpose financial statements of all public sector entities. They enable assessment of the impact of fiscal and monetary policy decisions; assist external reporting by governments to electorates, taxpayers, and investors; and assist in internal management decisions in resource allocation (planning and budgeting), monitoring, and accountability.

Of course, the application of IPSASs will not solve the government debt problem. But the appropriate use of financial information rendered from such standards could assist public officials and other groups in assessing the implications of fiscal decisions made by government.

Looking Forward

The accountancy profession has an important role to play in resolving the current crisis and in building a reformed international financial system. That is why, later this month, IFAC will submit a series of recommendations to G-20 leaders at their June meeting in Toronto, Canada. The recommendations emphasise the need for greater transparency and accountability in public sector finances, and encourage G-20 leaders to push for the adoption of accrual-based accounting and IPSASs in governments throughout the world.

Ultimately, however, the government debt crisis has created a direct challenge to governments themselves to report high quality information to their stakeholders. The information they provide should disclose the full, long-term economic impact of decisions—not just immediate cash flows. It should provide a clear understanding of the relationship between the market and non-market activities of the government, and between financial statements and statistical bases of financial reporting. And it should be broad enough in scope to provide insights about the past, present, and future, including prospective financial information about future expenditures and objectives, and the resources needed to support them.

By providing this information, governments will demonstrate accountability and stewardship, reinforce their credibility, and safeguard their democratic legitimacy. Make no mistake: Investors, taxpayers, and citizens in all nations have a right to this information. And in this new era of accountability and transparency, they will soon demand it.■

Progress and Challenges of CAPA in 2010-2011

The idea of the Confederation of Asian and Pacific Accountants (CAPA) was conceived on November 28, 1957 in Manila, Philippines, where the first conference was held in the Asian region. Today, CAPA has a membership of 32 accountancy organisations in 24 jurisdictions. The mission of CAPA is to provide leadership in the development, enhancement and coordination of the accountancy profession in the Asia-Pacific region to enable the profession to provide services of consistently high quality in the public interest. This article highlights the progress and challenges of CAPA.

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This November the G-20 summit will be held in Seoul, the Korean capital where recently the finance ministers met to discuss the agenda for the summit. There were two key issues they agreed to include in the agenda—first, bridging the development gap between rich and poor countries and second, finding a solution to prevent the possibility of a second world financial crisis triggered by the Greek government debt. We all know that accountants should play major role in solving these problems. Building up an efficient and effective accounting infrastructure in developing countries and adopting the highly advanced accounting and reporting system for government expenditures are prerequisite to solve these issues.

These two issues are also well fitted to the mission of Confederation of Asian and Pacific Accountants (CAPA). In particular the first issue has been the generic issue for CAPA ever since CAPA was founded. The idea of the CAPA was conceived on November 28, 1957 in Manila, Philippines, where the first conference was held in the Asian region. There were only 16 countries that participated in the first meeting. Today, CAPA has a membership of 32 accountancy organizations in 24 jurisdictions. It is one of the four major Regional Organisations recognised by the International Federation of Accountants (IFAC). CAPA's region spans from Canada in the North, New Zealand in the South, USA in the East to Pakistan in the West. It has diverse economies of varying levels of maturity. The diverse resources, skills and experience of these members are a unique strength of CAPA, which is used to benefit all its members.

The mission of CAPA is to provide leadership in the development, enhancement and coordination of the accountancy profession in the Asia-Pacific region to enable the profession to provide services of consistently high quality in the public interest. In line with achieving this mission, CAPA Board recently approved the implementation of three important strategic plans for the period from 2010 to 2011. These are the 'Outreach Programme', the 'IPSAS conference' and the 'SMP workshop'.

Outreach Programme

The purpose of 'Outreach' programme is to facilitate the development of the profession in the member body's jurisdiction. It is basically related to the capacity building of member bodies. Usually, at Board meetings CAPA and the host party will jointly organise an international conference or forum, focusing on selected topical international issues relevant to the host jurisdiction. These international events also provide the opportunity for the host body to promote or renew effective partnerships with other stakeholders within the jurisdiction's accountancy infrastructure, such as Educational

Institutions and relevant Government departments.

In addition to the above, CAPA is also working with IFAC to help our members complete and implement their SMO (Statements of Membership Obligation) action plans. This year the CAPA CEO and IFAC personnel will visit Fiji and Papua New Guinea to assist them in finishing their SMO action plans. This activity usually is performed in conjunction with holding the SFC (Strategic and Finance Committee) meeting of CAPA in the jurisdiction.

IPSAS Conference

IPSASs represent international best practice in financial reporting by public sector entities. Over 80 countries and international organisations such as OECD, NATO, EC and INTERPOL have agreed to adopt IPSASs. In most countries, the public sector accounts for upwards of 30% of national resource consumption. During the recent world economic crisis, many countries have drastically increased the government expenditures to restore economic stability. Consequently the public sector portion has become even greater in many countries. With this in mind and remembering the events in Greece, many countries are now aware of the necessity of improving the monitoring system of government debts. IPSASs are considered to be an internationally proven efficient tool to upgrade financial reporting practices and as a result improve monitoring of the government financial risk.

There will be an increasing need for capable accountants in the area of public sector financial reporting as government bonds and government debts are increasingly participating in capital markets. CAPA is planning to take leadership in promoting the adoption of IPSASs in this region and hold an IPSAS conference in Seoul in May, 2011. CAPA will also develop IPSAS workshops to build capacity of members regarding public sector accounting and reporting practices in the region.

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SMP Workshop

As we all agreed at the Beijing SMP conference last year co-hosted by CICPA and IFAC, SMEs are very important and actually constitute the majority of our economy. For example, on average, more than 95% of enterprises are SMEs. SMEs and SMPs have several similar characteristics. Both of them have challenges in capacity building and enhancing public confidence because they have limited number of professional staff members and limited access to new technological developments. On the other hand there are greater opportunities for SMPs to provide better services designed for small individual companies than big firms because they can be more flexible and adaptable to each individual client.

CAPA is planning to hold SMP workshops regularly to support SMP accountants to develop business models and acquire newly developed knowledge. We will work closely with the SMP committee of IFAC in pursuing this project. IFAC has resources but CAPA has closer accessibility to members in the region.

Challenges

Nowadays, accountants are facing an unprecedented influx of new knowledge. They need to have superior knowledge on IFRS, IFRS for SMEs, IPSASs, new ISAs, let alone new IT technology development such as XBRL to be competitive in the market. What makes it more difficult for accountants is that the knowledge keeps changing at light speed. Yet, they do not have enough time and/or opportunity to learn all the required knowledge to render competent service to their clients. The accountants in the so called “Big Four” firms, have relatively good chance to get access to this new knowledge. However, the accountants in SMPs have limited access to this ever changing new knowledge. CAPA is determined to play a key role in providing opportunities for accountants in SMPs to acquire new knowledge.

The real challenge CAPA faces now is working with national member bodies and appropriate committees of IFAC such as SMP and DNC committees. CAPA also has to obtain the necessary funds from World Bank and ADB to provide equal opportunity to the SMP accountants in developing countries. CAPA also has to encourage and give confidence to donor countries in the region in order to keep their contributions coming to CAPA.

Last January CAPA launched the Training the Trainer's workshops for IFRS for SMEs in Kuala Lumpur and Hyderabad with subsidy provided by ADB. They were judged to be very successful by the majority of the participants. This is the benchmark for CAPA in pursuing its strategic plans; hosting the workshops for all accountants in the region and also giving an equal opportunity to the accountants in developing countries. ■

SAFA and Developing Accounting Profession in Nepal

The important role of accounting and auditing was recognised in the public and private sector in Nepal since long past. Auditing was considered to be very important function which was feared by public officials. However, the establishment of a professional accounting body is a more recent history. The development of corporate business started only after the second World War with enacting of a company ordinance. Chartered accountants from India used to visit Nepal occasionally to audit the accounts of a very few joint stock companies that started to be registered then. Several years after the political change in 1950, an independent agency of auditor general was created with enactment of Audit Act, 1959.

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Chartered accountancy was then considered to be a very difficult, but a respectable and lucrative profession. Students started to go to India to seek the qualification. First batch of a few Nepalese students were qualified as chartered accountants from ICAI only in 1964. By then, private sector had also grown to a sizeable extent. The need of accounting professionals was badly felt. The freshly qualified accountants got good postings quickly in the few enterprises that were established to run industry and commerce in public sector.

Realising the dearth of professionals to handle the task of auditing accounts, Auditors` Act was enacted in 1974. It empowered the office of auditor general to issue licence to audit accounts of private business or of institutions like schools, cooperatives and village councils. While Chartered accountancy or equivalent qualification was required in order to apply for the `A` licence, three other categories of audit licence were also issued depending upon the applicants` educational qualification and work experience. Consequently, a large contingent of unqualified persons also was registered as auditors of the various categories. In a matter of a few years, the number of auditors increased to hundreds and soon crossed a thousand. While accounting profession was regarded as important, the tasks and responsibilities of auditor were hardly understood. Their tasks were limited in many instances to tallying the books and verifying the figures. Most of those with `A` licence were practicing as auditors while being employed in business.

By the year 1974, the number of chartered accountants increased to just 15 only. They realized the anomalies of the Auditors` Act and considered it important to be organised in order to protect the interest of qualified accountants and to campaign for developing the profession. They formed the Association of Chartered Accountants of Nepal (ACAN) which took four years to get it officially registered as a Society. The activities of ACAN were more or less limited to raise voice in members` interest and to exchange professional knowledge among members.

The establishment of the South Asian Federation of Accountants (SAFA) in 1984 was a landmark in the development of accounting profession in Nepal. The goodwill and support that the Nepalese profession received from SAFA was very important to push forward the long cherished desire to develop the profession. The Nepalese association was invited to attend all the meetings of SAFA since its inception. SAFA took a proactive role in supporting the cause of institutionalising the profession in Nepal. A sub-committee of SAFA visited Nepal in 1986, met high officials and advocated the importance of establishing a professional accountancy body. It offered to submit a study report recommending the modality and structure of such a body. The government received the SAFA report which was jointly drafted by representatives from ICAI and ACAN. The report was appreciated and the government formed a special committee with representatives from the concerned departments and from ACAN to prepare a detailed report in the process of institutionalising the profession. The report was duly approved and accordingly a bill was drafted. The political change of 1990 shifted the attention of legislatures to other agenda that were then considered to be more urgent than establishing an accountancy body.

As a result of continuous efforts of the Nepalese professionals supported by the advocacy and proactive role played by SAFA and its member bodies, the dream to establish a professional accounting body was materialised after more than a decade. The statue was finally legislated in the form of Nepal Chartered Accountants Act, 1997.

The most debated issue before the formation of ICAN was how to accommodate the several hundred unqualified accountants holding junior audit licence. The number of chartered accountants was minimal and the government was not willing to grant them the exclusive right to practice as auditors. Hard bargaining with the parliamentary committee finally agreed in a formula to give a junior status to the then existing audit licence holders with a minority representation in the council.

By 1997, the number of qualified accountants was still less than one hundred. Most of them were members of ICAI and a few were qualified in the UK and the USA. On the other hand, the other licence holders who were given junior membership and called registered auditors numbered more than two thousand. It was expected as was provided in the Chartered Accountants Act that the Auditors' Act would be repealed and no other unqualified accountants would receive audit licence. However, the process took several more years to materialise and nearly five thousand more junior auditors' licences were issued before the Auditors' Act was repealed.

The present membership of ICAN has reached five hundred chartered accountants, among whom those qualified from ICAN itself numbered nearly one hundred. While the number of students registered with ICAN is several thousand, other thousands still are undergoing the course of ICAI and receiving training in India. The condition manifests the expectations of students from Nepal to have a better qualification in India. ICAN still needs to do more in terms of public relations by raising confidence on its qualification.

Although the new entry of junior members was stopped, ICAN has to cater for it's more than seven thousand registered auditors. They are expected to continue as members. In order to renew their certificate of practice, they are expected to earn a few credit hours of CPE sessions. While there are a few hundred registered auditors who in the upper category, there are a large number of them who still lack the basic knowledge required for the profession. Due to the lack of a uniform professional qualification, ICAN is not in a position to determine their professional competence. This is a very serious impediment in regulating the profession.

ICAN regulations are in line with the other chartered accountancy bodies of SAFA and more similar to that of ICAI. Education and examination systems were established with the technical cooperation of ICAI. Gradually, ICAN has been developing its own syllabus and has been able to stand on its own feet.

Much credit goes to ICAI for the development of accounting profession in Nepal. ICAI helped a lot in establishing the Institute of Chartered Accountants of Nepal (ICAN). It was not possible for ICAN to take off so soon after its establishment if a MoU for technical cooperation was not signed between the two bodies soon after its formation. ICAI has been supporting ICAN in receiving international recognition as well. SAFA gave its membership to ICAN immediately upon its formation. In its first year itself, it was also admitted to CAPA. ICAN has recently been admitted as a full member of IFAC.

ICAN has now grown to a stage of maturity to be in line with the other member bodies of SAFA. It is an honour for ICAN to have its representative being elected to the high office of SAFA President.

The South Asian Federation of Accountants (SAFA) is the regional federation of professional accountancy bodies in South Asian Association for Regional Co-operation (SAARC) Region dedicated to ensure its continued eminence in the world of accountancy; in the public interest and towards broad economic development of the region. SAARC has recognised SAFA as one of its apex bodies. SAFA has currently nine accounting bodies. Except in Nepal, there are management accountancy bodies together with chartered accountancy bodies in India, Bangladesh, Pakistan and Sri Lanka. SAFA is keen to welcome member bodies from Afghanistan, Maldives and Bhutan as well. SAFA, through its member bodies, can provide necessary technical support to development of profession in those countries.

SAFA as a forum of professional accountancy bodies is committed to positioning, maintaining and developing the accountancy profession in SAARC region and ensuring its continued eminence in the world of accountancy; in the public interest and towards broad economic development of the region.

SAFA is working in several important fronts through active engagement of several of its committees. Among the important works is the one towards harmonising the accounting education in the SAARC region with the objective of having in due course a qualification that could be recognised as South Asian qualification. SAFA is also trying to raise a united voice to present the views of developing economy in the international forum. ■

The Accountancy Profession in Global Perspective: Role, Challenges and Future

The role of accountants is a simple one. It is to ensure that the financial information on which all business depends, from within the smallest village to the greatest global city, is accurate, reflects the true economic reality of that business, and can be relied upon by everyone else throughout the economy. That may seem a simple and obvious goal but it tends to become over-complex. So accountants need to be skilled professionals. They need to be able to use their judgement and not allow themselves to be reduced to simple box-tickers.

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Accountants need to be thinkers rather than clerical fact-checkers. And they also need to operate under a system where it is their judgement which brings integrity to the system. They need to operate within a principle-based system rather than a rule-based one. Rule-based systems tend to produce information which is technically correct according to the rulebooks but has little value in enabling people to understand or to make decisions. Principle-based systems enable accountants to look at the underlying intentions of the governing principles and produce the answer which fits best with those intentions. When information which is crucial to critical economic and business decisions is required accounting is the means of ensuring that information is as truthful and straight as possible.

The role of accounting within the global financial markets is to provide the information which acts as the oil within the business engine. What accounting does is try to show the financial state of an entity in as true and fair a way as possible.

International Financial Reporting Standards, (IFRS), are the tools which allow this to happen increasingly all around the world. They are designed to provide an economic assessment of an entity at a particular date. This allows others to use the information provided as a basis to make assessments of an entity's future performance.

The existence of audited accounts produced under broadly comparable standards enables a global market of analysis and assessment of those figures to exist. Ratings agencies and investors are then able to take their decisions. The important point is for the information to have integrity and so then create confidence.

And the benefits are, of course, not simply financial. The process is a force for general, and not just financial good. For developing economies an increase in foreign direct investment can help to eradicate poverty and raise standards of education. The economic sophistication which follows helps everyone.

Significant progress has already been made. As many as 120 countries are now using the IFRS framework which the IASB has created and promulgated and a swathe of other major economies are due to come on board in the next few years. And the programme is having real effects from the largest of companies and organisations to the smallest. In Brazil and South Africa, for example, the adoption of the new standard for small and medium-sized enterprises provides the possibility of transforming the opportunities for small businesses in those countries.

At the inception of the IASB no one would have confidently predicted the number of countries around the world which now are either already using IFRS or will shortly be doing so. The G20 group of heads of state sees the creation of a truly global financial reporting language around the world as one of their key objectives. The only major country which has yet to set a date to move across to IFRS is the US and its major regulatory body, the SEC, has made it plain that sooner or later IFRS is its objective.

It has been a remarkable achievement. The goal of a common accounting language around the world is more advanced than many other areas of global cooperation, like financial regulation or climate change, for example. And the IASB has shown what can be achieved by a truly global, truly independent organisation. Our Trustees and our Board all have geographical diversification as a criterion for appointment. The Trustees hold their meetings all around the world. Last year, they held a three-day meeting in New Delhi, for example. We are based in London but that has no influence on our work. At our headquarters we have around 120 staff from almost 30 countries.

It is an independent standard-setting board which is appointed and overseen by a geographically and professionally diverse group of trustees who are accountable to capital market authorities via our Monitoring Board and to the public interest generally. Our funding comes from a wide range of market participants from across the world's capital markets and is shared across jurisdictions with official support from the relevant regulatory authorities. None of it is contingent on any particular actions that the IASB might take. And the proceedings of the IASB are entirely open and transparent.

“The IASB worked very closely with the Institute of Chartered Accountants of India as part of the Indian plans to adopt IFRS. The second wave of IFRS adoption has a distinctly Asian feel, as you would expect from a grouping of powerhouse economies such as India. This means that India should reflect this growing importance on the world stage in its work in the process of setting global accounting standards. This is a time when India has an important role to play to assert itself as a counterbalance, along with the other powerful Asian economies, to the traditional economic blocs of Europe and the US.”

And India is well represented at all levels of the organisation, from Board Member Prabhakar Kalavacherla, to Mohandas Pai of Infosys on the Board of Trustees. This is very important. The IASB worked very closely with the Institute of Chartered Accountants of India as part of the Indian plans to adopt IFRS. The second wave of IFRS adoption has a distinctly Asian feel, as you would expect from a grouping of powerhouse economies such as India. This means that India should reflect this growing importance on the world stage in its work in the process of setting global accounting standards. This is a time when India has an important role to play to assert itself as a counterbalance, along with the other powerful Asian economies, to the traditional economic blocs of Europe and the US. The IASB has welcomed this process, which it sees as a central part of the process of creating a truly global language of financial reporting. Our due process is rigorous and transparent, and we now routinely undertake a huge amount of outreach activities to supplement the formal due process consultation, such as roundtable discussions, webcasts, podcasts, blogs, snapshots, conferences, and so on. The voice of preparers of financial reporting and the investor community must be heard. There has been a significant input from the Indian business community in recent months and years in the form of comment letters and other aspects of outreach. But there is always room for more. Across the last year and a half, for example there has been significant input and outreach involving various technical standards. We welcome the Indian business community's efforts to build upon this process. It will enable the building of a truly global financial reporting language.

And it is this goal which must overcome all local special pleading. For IFRS to allow comparability and reliability of financial reporting around the world it must depend on full compliance with IFRS without any dilution through local adjustments.

The world of IFRS offers a distinctly Indian opportunity. There are several areas which promise growth on the world stage. A working knowledge and experience in IFRS offers an international passport for Indian accountants to take their professional abilities anywhere around the world. India in recent years has built global leadership in outsourced services. The emergence of IFRS as the global language means that there is ever greater opportunity for many of these businesses to develop offerings to incorporate the complete outsourcing of finance functions.

The global accountancy profession has, through IFRS, come of age. It is a tribute to the accountancy profession around the world that it has worked so hard to create a system which will have such beneficial effects on capital markets, the eradication of poverty and the creation of educational opportunities in economies, large and small, sophisticated and emerging. ■

Accountancy Education – The International Education Standards for Professional Accountants

The goal of accountancy education is to produce competent professional accountants capable of making positive contributions over their lifetimes to the profession and society in which they work. The International Accounting Education Standards Board (IAESB) has developed the International Education Standards for Professional Accountants (IESs) to establish global benchmarks for initial professional development and continuing professional development for professional accountants.

Mr. Mark Allison

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Introduction

Accountancy education provides the foundation upon which prospective and experienced professional accountants develop both their competence and professional values. The IESs prescribe good practice in learning and development for professional accountants throughout their careers. They aim to promote quality and consistency in accountancy education around the globe.

The IESs are designed to be of assistance primarily to IFAC member bodies, such as the Institute of Chartered Accountants of India. Member bodies are generally responsible for either establishing or implementing the IES requirements at the national level. In addition, IESs assist those responsible for accountancy education in setting the requirements for the skills and expertise accounting students need to develop and demonstrate competence for qualification.

The standards also assist in identifying the skills and strategies that are required for lifelong learning so that professional accountants can continually meet the expectations of the communities they serve. The IESs set out the principles for designing, delivering, and assessing education for professional accountants.

Learning and development programmes are expected to contain these principles and have the potential for international recognition, acceptance and application. Although the standards are prescriptive in nature, they cannot override authoritative local pronouncements or regulations.

How IESs Serve the Public Interest

The IAESB serves the public interest by strengthening the worldwide accountancy profession through the development and enhancement of education methods. IESs provide a global framework for preparing professional accountants to make positive contributions to the profession and society, and promote consistency and convergence in accounting education processes adopted throughout the world.

Enhancing education improves the accountancy profession's ability to meet the needs of decision makers. This serves the public interest and strengthens trust. By establishing benchmarks for education, IESs promote quality in accounting education worldwide, helping IFAC member bodies and others educate and train competent professional accountants who will contribute positively to their communities throughout their careers.

IESs also advance convergence and consistency in the application of international technical and practice standards by ensuring a common base of education and practical experience for all professional accountants.

Developing and implementing IESs can also contribute to other desirable outcomes, including:

- Reduction in international differences in the requirements to qualify and work as a professional accountant;
- Facilitation of the global mobility of professional accountants; and
- Provision of international benchmarks against which IFAC member bodies can measure themselves.

Overview of International Education Standards

There are currently eight IESs. They are inter-related because their requirements are covered in both pre- and post-qualification. In fulfilling its mission of promoting quality and consistency in accounting education around the globe, the IAESB has developed the first six of the IESs to cover pre-qualification.

These six IESs cover 4 fundamental areas in the education and development of an accountant:

- General education,
- Professional accounting education,
- Practical experience, and
- Assessment.

The two other IESs have been developed to cover post-qualification. They cover areas for:

- life-long learning or continuing professional development, and
- one of the profession's specialisations that of an audit professional.

How Are IESs Used

The application of the IESs has gained important international recognition during the period between 2003 and 2010. The standards are used not only in directing the learning and development of professional accountants, but are also a factor in the in formulation of the 2nd Statement of Membership Obligations for IFAC membership. The World Bank uses the IESs to develop a questionnaire which the organisation uses as a diagnostic tool providing an overview of the accounting and auditing environment in a country. This information is used by the World Bank to develop the Report on the Observance of Standards and Codes (ROSC) documents that assist these countries in implementing international accounting and auditing standards to strengthen their financial reporting.

"The IESs provide an important framework for all those interested in ensuring the high quality performance of professional accountants, including statutory and regulatory authorities involved with accountancy education."

The IESs have also been used by agencies such as United States Agency for International Development (USAID) to develop a methodology for benchmarking that helps identify gaps in the implementation and compliance of accounting education standards in various countries. Such information is then used as a basis for future donor allocations. Researchers have used the IESs to develop a benchmarking analytical tool known as the Accounting Development Index. The Index ranks a country's transparency and accountability. Such data allows for comparison and acts as a basis for analyzing ongoing improvement in financial reporting.

Finally, the IESs on knowledge content and professional skills have been used by the Secretariat of the United Nations Conference on Trade and Development (UNCTAD) to develop a guideline for a global accounting curriculum and other qualification requirements.

Next Steps

Operating as an independent standard-setting body, the IAESB is required to review periodically the IESs to ensure that they remain relevant. As a result the Board has launched in 2009 a 3½ year project to revise all eight Standards.

IESs 1-6 were issued in October 2003, and have not been subject to revision or significant redrafting since their inception. IES 7 was issued in 2004, and IES 8 in 2006. Although there has been a less time for the application of these two standards, a number of issues require the Board's attention. The IAESB acknowledges that the IESs need to be more inclusive by recognising the various roles of a professional accountant. In accordance with the proposals from the Drafting Conventions project, all of the standards will be redrafted.

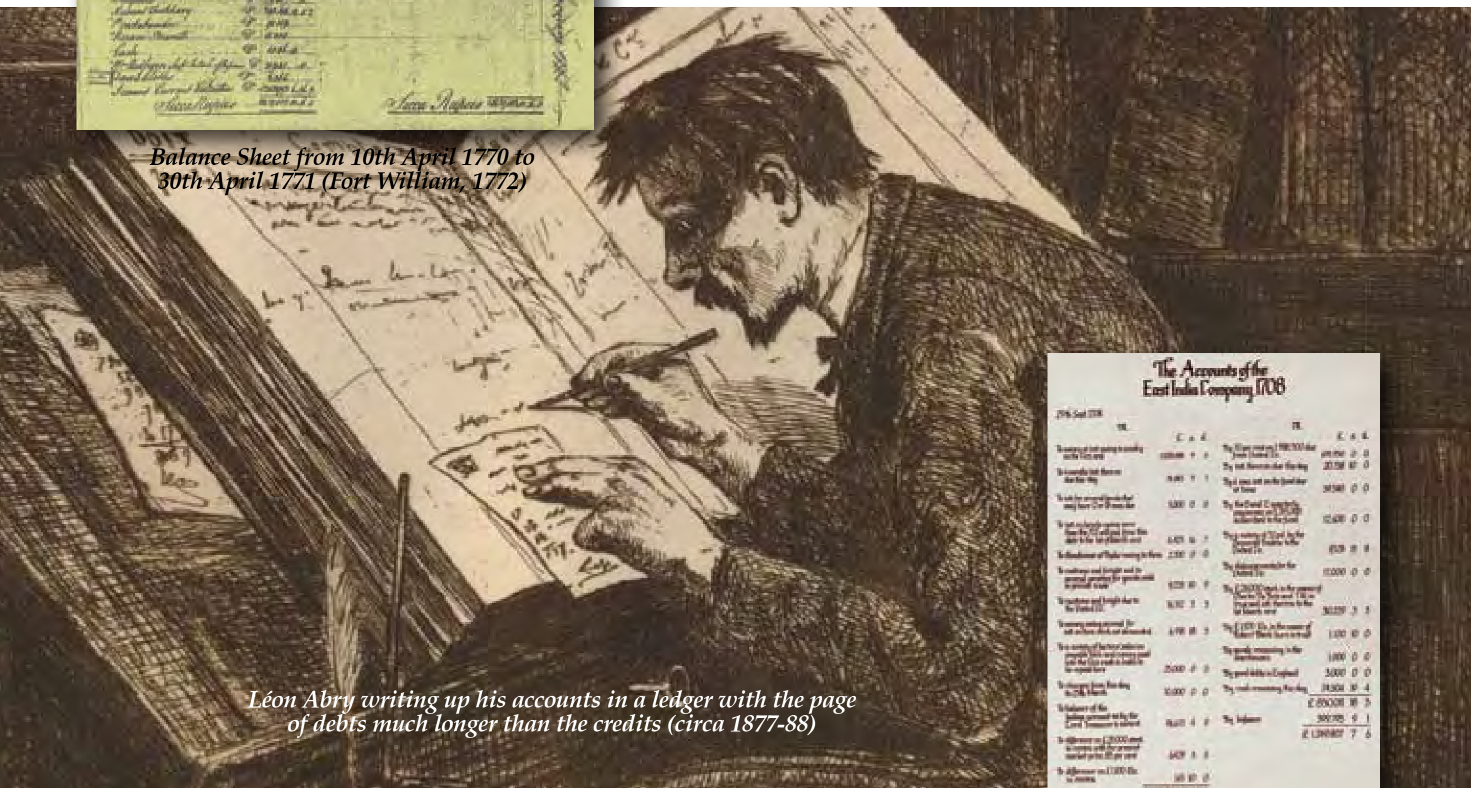
All of the standards are expected to be redrafted and revised by the fourth quarter of 2012. Each standard will be redrafted and revised to ensure recognition of the variety of accounting roles. In redrafting and revising a standard, the new structure will make the standards clearer by improving their readability, while providing an appropriate level of explanation to ensure that interested stakeholders understand and apply the standards properly. The advantages of adopting the new structure for each standard will be to: improve their consistent application; assist in their adoption; and facilitate international implementation.

The IESs and other IAESB pronouncements may be downloaded free of charge from the IAESB's website at: http://web.ifac.org/publications/international-accounting-education-standards-board. ■

excellence in financial reporting

ROLE OF ACCOUNTANCY PROFESSION IN INDIA

Balance Sheet from 10th April 1770 to 30th April 1771 (Fort William, 1772)



Léon Abry writing up his accounts in a ledger with the page of debts much longer than the credits (circa 1877-88)

The Accounts of the East India Company, 1708

- **Accounting Standards Board**
- **Auditing and Assurance Standards Board**
- **Committee on Financial Markets and Investors' Protection**
- **ICAI – Accounting Research Foundation**
- **Internal Audit Standards Board**
- **Financial Reporting Review Board**
- **Committee on Accounting Standards for Local Bodies**
- **Committee on Public Finance and Government Accounting**
- **Peer Review Board**
- **Research Committee**
- **Corporate Laws and Corporate Governance Committee**
- **Ethical Standards Board**

Facilitating Qualitative Improvement in Financial Reporting in India through Accounting Standards

India is a country where accounting profession got its headstart with the enactment of Indian Companies Act in mid-1800s. To regulate the profession of Chartered Accountants in India, the Institute of Chartered Accountants of India (ICAI) was established in 1949 as a statutory body even before the nation becoming republic, i.e., in 1950. The ICAI being the premier accounting body in India, since its establishment, has been making persistent efforts for bringing an overall qualitative improvement in the financial reporting in India. The ICAI became one of the associate members of the International Accounting Standards Committee (IASC) in 1974. The ICAI also became a member of the International Federation of Accountants (IFAC) since its inception in October 1977.

(Contributed by Accounting Standards Board of ICAI. It can be reached at asb@icai.in)

For harmonising the diverse accounting policies and practices in India, the ICAI set up the Accounting Standards Board (ASB) in 1977 for formulating Accounting Standards. Being the associate member of the IASC and full-fledged member of the IFAC, a debate had started in 1977 whether ICAI should adopt the International Accounting Standards (IASs) formulated by IASC (predecessor body of IASB). While certain countries were adopting IASs as their national standards at that time, it was decided that ICAI would develop its own Accounting Standards. So far as the IASs were concerned, it was decided that ASB would consider the IASs while formulating its Accounting Standards and will try to integrate them to the extent possible in the light of the prevailing Indian conditions.

Initially, the Accounting Standards issued by the ICAI were recommendatory in nature. After gaining sufficient experience, the Council of the Institute gradually started making the Accounting Standards mandatory for its members, i.e., requiring the members to report on whether an enterprise subject to audit had followed a mandatory Accounting Standard.

The legal recognition to the Accounting Standards was accorded for the companies in the Companies Act, 1956, by introduction of section 211(3C) through the Companies (Amendment) Act, 1999, whereby it is required that the companies shall follow the Accounting Standards notified by the Central Government on a recommendation made by the National Advisory Committee on Accounting Standards (NACAS) constituted under section 210A of the said Act. NACAS was constituted by the Central Government on 29th August 2001 under authority of Section 210A of the Companies Act, 1956 with its Secretariat at the ICAI. The proviso to section 211(3C) provides that until the Accounting Standards are notified by the Central Government, the Accounting Standards specified by the Institute of Chartered Accountants of India shall be followed by the companies. National Committee on Accounting Standards (NACAS) constituted by the Central Government for recommending Accounting Standards to the Government, reviews the Accounting Standards formulated by the ICAI, and recommends to the ICAI to revise the Accounting Standards wherever it considers necessary. The Government of India, Ministry of Company Affairs (now Ministry of Corporate Affairs), had notified Accounting Standards 1 to 7,and 9 to 29 on 7th December, 2006 by notification of Companies (Accounting Standards) Rules, 2006. It may be mentioned that the Accounting Standards notified by the Government are virtually identical with the Accounting Standards, read with the Accounting Standards Interpretations, issued by the Institute of Chartered Accountants of India.

The Reserve Bank of India (RBI), being the regulator of banks in India, requires all the banks, through its circulars/guidelines, to follow the Accounting Standards issued by the Institute of Chartered Accountants of India. Further, the Securities and Exchange Board of India (SEBI), through the Listing Agreement with stock exchanges, requires all listed entities to comply with the Accounting Standards issued by the Institute.

“For harmonising the diverse accounting policies and practices in India, the ICAI set up the Accounting Standards Board (ASB) in 1977 for formulating Accounting Standards. So far as the IASs were concerned, it was decided that ASB would consider the IASs while formulating its Accounting Standards and will try to integrate them to the extent possible in the light of the prevailing Indian conditions.”

Also, the Insurance Regulatory and Development Authority (IRDA), which regulates the financial reporting practices of insurance companies under the Insurance Regulatory and Development Authority Act, 1999, through IRDA (Preparation of Financial Statements and Auditor's Report of the Insurance Companies) Regulations, 2002, requires compliance with the Accounting Standards issued by the Institute of Chartered Accountants of India for preparing and presenting their financial statements by insurance companies.

Accounting Standards act as pillars of financial reporting structure of the country, forming an integral and important part of good corporate governance. Accounting Standards lay down sound principles for recognition, measurement, presentation and disclosures of information in the financial statements, which substantially improve the quality of financial statements. Accounting Standards promote better standards in the presentation of information in the financial statements. These financial statements provide the shareholders and other stakeholders, such as creditors, lenders, etc., useful and significant information about the company, which helps them to make their economic and financial decisions about the company. In order to make sound decisions, it is imperative that the information on which such decisions are based is reliable, comparable and free from any bias. This necessitates the existence of sound, reliable and high quality financial reporting structure in the country. Meaningful and transparent financial statements serve a company favourably in the long run since it establishes its creditability in the eyes of the investors, regulators and other users. Therefore, it is imperative for Indian companies to follow the Accounting Standards which are based on the best of the International accounting practices.

The Accounting Standards have assumed great significance in today's environment, which is constantly evolving and changing. Companies are expected to reflect economic and business reality in their annual reports based on current knowledge and expectations for the future. They are expected to give reports of companies' financial position, operating results and cash flows. To ensure effective implementation of the Accounting Standards, the Accounting Standards Board of the Institute acts proactively by issuing background material for seminars, Frequently Asked Questions (FAQs), implementation guidance, etc.

For establishing sound financial reporting system in the country, the Accounting Standards need to be implemented in the same spirit in which they are formulated. The onus of implementation of the Accounting Standards in the correct manner has been passed to the professional Chartered Accountants. While auditing the financial statements, they are required to ensure that the financial statements are drawn on the basis of correct and uniform accounting principles and policies based on Accounting Standards. In the event of any deviation from the mandatory Accounting Standards, it will be the duty of the auditor to make adequate disclosures in their audit reports so that the users of financial statements may be aware of such deviation.

Since the establishment of Accounting Standards Board, the Accounting Standards-setting process in India has come a long way in achieving international benchmarks of accounting. However, due to globalisation, a need for a single set of high quality globally accepted accounting standards has been felt. In the present era of globalisation, businesses are expanding across borders and entities are accessing the global markets for capital. Capital is perhaps the most internationally mobile of all factors of production. In such a scenario, the users of the financial statements of an enterprise are no longer limited to single country. Moreover, such users may not be able to appreciate the differences in GAAP requirements of various countries. For this purpose, it is necessary that as far as possible, the accounting principles for reporting financial information shall be identical in all the countries. Accordingly, there is a need for a single set of high quality global accounting standards.

International Financial Reporting Standards (IFRSs) issued by the IASB are increasingly being recognised as Global Financial Reporting Standards. This has motivated many countries to pursue convergence of their National Accounting Standards with IFRSs. Substantial benefits have been proposed by the adoption of IFRS, including a decreased cost of capital, greater mobility of capital, greater efficiency in the allocation of resources, improved and more comparable financial reporting.

Recognising the need to participate in the opportunities offered by globalization, the entities in emerging economies are increasingly accessing the global markets to fulfill their capital needs by getting their securities listed on stock exchanges outside their country. They have recognised that they will have to adopt IFRSs if they do not want to be left out of the global capital markets. They seek to participate in the wealth and financial opportunities promised by globalisation.

Realisng the need of convergence with IFRS, a task force was constituted by the ICAI in 2006, which prepared Concept Paper on Convergence with IFRSs in India. The Concept Paper laid down initially the strategy for convergence. Convergence with IFRS was announced for Public-interest Entities by ICAI from accounting periods commencing on or after 1.4.2011. The Ministry of Corporate Affairs (MCA) has also confirmed the initiative of ICAI to converge with IFRS. Roadmap to convergence for Banking, Insurance, NBFCs and other companies has been laid down by the Ministry of Corporate Affairs (See Box 1). It has also been announced by the MCA that there will be two separate sets of Accounting Standards. First set would comprise the Indian Accounting Standards converged with the IFRSs which shall be applicable to the specified class of companies over the time frame mentioned in the Roadmap; the second set would comprise the existing Indian Accounting Standards and would be applicable to other companies, including Small and Medium Companies (SMCs).

“To meet the timelines laid down by the MCA regarding convergence, ICAI is making all-out efforts to address needs with regards to various aspects of implementation. One of the endeavours in this direction is formulation of IFRS-converged Accounting Standards. Exposure Drafts of all the IFRS converged Accounting Standards have been issued by the Accounting Standards Board for public comments. Accounting Standards formulated by the ICAI are being simultaneously considered by the National Advisory Committee on Accounting Standards (NACAS).”

To meet the timelines laid down by the MCA regarding convergence, ICAI is making all-out efforts to address needs with regards to various aspects of implementation. One of the endeavours in this direction is formulation of IFRS-converged Accounting Standards. Exposure Drafts of all the IFRS converged Accounting Standards have been issued by the Accounting Standards Board for public comments. Accounting Standards formulated by the ICAI are being simultaneously considered by the National Advisory Committee on Accounting Standards (NACAS). This process of formulation of IFRS converged Accounting Standards is at advanced stage and expected to complete by June-end 2010 as far as the ICAI is concerned. The Government is also expected to notify the same shortly thereafter. Current status of formulation of IFRS converged Accounting Standards is given separately (See Box 2).

Another focus area to achieve convergence timely is to make Indian laws and regulations consistent with the IFRS requirements. For this purpose, conflicting legal and regulatory requirements are being identified and taken up with the relevant regulators. In this regard, changes required in the Companies Act have already been identified and sent to the Ministry of Corporate Affairs, Government of India. The Government is expected to amend the Act shortly. Changes required in other laws, such as, Banking Regulations, Insurance laws, SEBI Rules and Regulations are being finalised.

To ensure proper implementation of IFRS converged Accounting Standards, necessary initiatives have been undertaken by the ICAI to educate and train the concerned stakeholders. In this regard, 100 hours IFRS certificate course has been started by the ICAI. As many as 33 batches have been completed and seven batches are in process. More than 1600 members have already undergone this course. In addition to the Certification Course, IFRSs e-learning Course has been started. Workshops, seminars on IFRSs are being organised all over the country. To familiarise the members, corporates and other stakeholders with IFRS converged Accounting

Standards, all-India chain workshops on Indian Accounting Standards converged with IFRS have been started in collaboration with the MCA. Under this programme, 58 workshops have been planned to be organised in various cities of the country to equip the concerned stakeholders with the essential knowledge of IFRS converged Standards.

Since, in future also, India would continue to follow the path of convergence with IFRS. Accordingly, it is imperative that India plays an influential role in formulation of IFRSs and Indian concerns are placed before the IASB before their finalisation. For this purpose, comments are submitted to the IASB on their consultative documents such as Exposure Drafts and Discussion Papers. For obtaining comments of various stakeholders consultative documents issued by the IASB are circulated in the similar manner as Accounting Standards formulated by the ASB are circulated. Study Groups have also been constituted to study the consultative documents and formulate comments on the same. Comments formulated by the Study Groups are considered by the ASB and submitted to the IASB. To play even more effective influential role, the ICAI is planning to lay down a formal procedure involving more participation of various stakeholders for sending comments on the consultative documents issued by IASB.

The initiatives taken by the Institute in bringing the Indian accounting practices at par with the best of international accounting practices and assisting in the application of sound accounting principles laid down by the accounting standards will no doubt will bring excellence in financial reporting in the country. Thus, in turn, would lead to investment in efficient enterprises instead of inefficient enterprises, which, would improve the overall productivity of the economy.

Roadmap to Convergence

Roadmap for convergence in respect of Companies other than Banking Companies, Insurance Companies and NBFCs

Converged Accounting Standards will be applied to specified class of companies in phases:

Phase-I conversion of opening balance sheets as at 1st April, 2011, if the financial year commences on or after 1st April, 2011	Companies which are part of NSE – Nifty 50
	Companies which are part of BSE - Sensex 30
	Companies whose shares or other securities are listed on stock exchanges outside India
	Companies, whether listed or not, which have a net worth in excess of Rs.1,000 crore
Phase-II conversion of opening balance sheets as at 1st April, 2013, if the financial year commences on or after 1st April, 2013	The companies, whether listed or not, having a net worth exceeding Rs. 500 crore but not exceeding Rs. 1,000 crore
Phase-III conversion of opening balance sheets as at 1st April, 2014, if the financial year commences on or after 1st April, 2014	Listed companies which have a net worth of Rs. 500 crore or less
Note 1: When the accounting year ends on a date other than 31st March, the conversion of the opening Balance Sheet will be made in relation to the first Balance Sheet which is made on a date after 31st March.	
Note 2: Companies covered in Phase I will prepare their financial statements for 2011-12 in accordance with converged Accounting Standards, but will show previous years' figures as per the financial statements for 2010-11 i.e. as per non-converged Accounting Standards.	
However, the entity shall have the option to add an additional column to indicate what these figures could have been if converged Accounting Standards had been applied in that previous year.	

Non-listed companies which have a net worth of Rs. 500 crore or less and whose shares or other securities are not listed on Stock Exchanges outside India and Small and Medium Companies (SMCs) will not be required to follow the notified Accounting Standards which are converged with the IFRS (though they may voluntarily opt to do so) but need to follow only the notified Accounting Standards which are not converged with the IFRS.

Roadmap for convergence in respect of Banking Companies, Insurance Companies and NBFCs

Following is the roadmap for convergence in respect of insurance companies, banking companies and non-banking finance companies for complying with converged Accounting Standards:

Roadmap for Insurance companies

All insurance companies will convert their opening balance sheet as at 1st April, 2012 in compliance with the converged Accounting Standards.

Roadmap for Banking companies:

Date of conversion of opening balance sheet in compliance with converged Accounting Standards	Class of Banking Companies
1st April, 2013	All scheduled commercial banks and those urban co-operative banks (UCBs) which have a net worth in excess of Rs. 300 crore
1st April, 2014	Urban co-operative banks which have a net worth in excess of Rs. 200 crore but not exceeding Rs. 300 crore

Urban co-operative banks which have a net worth not exceeding Rs. 200 crore and Regional Rural banks (RRBs) will not be required to apply the converged Accounting Standards (though they may voluntarily opt to do so) and need to follow only the existing notified Accounting Standards which are not converged with IFRSs.

Roadmap for Non-Banking Financial companies

Conversion of opening balance sheet in compliance with converged Accounting Standards	Categories of NBFCs
1st April, 2013	Companies which are part of NSE – Nifty 50 Companies which are part of BSE - Sensex 30 Companies, whether listed or not, which have a net worth in excess of Rs.1,000 crore
1st April, 2014	All listed NBFCs and those unlisted NBFCs which do not fall in the above categories and which have a net worth in excess of Rs. 500 crore
Note: if the financial year commences on any other date than 1st April, then the conversion of the opening Balance Sheet will be made in relation to the first Balance Sheet which is made on a date after 1st April.	

Unlisted NBFCs which have a net worth of Rs. 500 crore or less will not be required to follow converged Accounting Standards, though they may voluntarily opt to do so, but need to follow only the notified Accounting Standards which are not converged with the IFRSs.

Status of preparation of IFRS converged standards Corresponding to IASs/ IFRSs (as on June 1, 2010)

S No.	Standards	Status
1.	Standards cleared by Council (details given below)	12
2.	Exposure Drafts issued (details given below)	26
	Total	38

Standards cleared by Council

1. AS 1 corresponding to IAS 1, *Presentation of Financial Statements*
2. AS 2 corresponding to IAS 2, *Inventories*
3. AS 3 corresponding to IAS 7, *Statement of Cash Flows*
4. AS 12 corresponding to IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*
5. AS 16 corresponding to IAS 23, *Borrowing Costs*;
6. AS 4 corresponding to IAS 10, *Events after the Reporting Period*
7. AS 25 corresponding to IAS 34, *Interim Financial Reporting*
8. AS 34 corresponding to IAS 29, *Financial Reporting in Hyperinflationary Economies*
9. AS 35 corresponding to IFRS 6, *Exploration for and Evaluation of Mineral Resources*
10. AS 19 corresponding to IAS 17, *Leases*
11. AS 5 corresponding to IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*
12. AS 7 corresponding to IAS 11, *Construction Contracts*

Exposure Drafts issued

1 AS 11 corresponding to IAS 21, *The Effects of Changes in Foreign Exchange Rates*

2 AS 10 corresponding to IAS 16, *Property, Plant and Equipment*

3 AS 37 corresponding to IAS 40, *Investment Property*

4 AS 21 corresponding to IAS 27, *Consolidated and Separate Financial Statements*

5 AS 23 corresponding to IAS 28, *Investment in Associates*

6 AS 20 corresponding to IAS 33, *Earnings per Share*

7 AS 18 corresponding to IAS 24, *Related Party Disclosures*

8 AS 29 corresponding to IAS 37, *Provisions and Contingent Liabilities and Contingent Assets*

9 AS 17 corresponding to IFRS 8, *Operating Segments*

10 AS 15 corresponding to IAS 19, *Employee Benefits*

11 AS 36 corresponding to IAS 26, *Accounting and Reporting by Retirement Benefit Plans*

12 AS 9 corresponding to IAS 18, *Revenue*

13 AS 26 corresponding to IAS 38, *Intangible Assets*

14 AS 38 corresponding to IAS 41, *Agriculture*

15 AS 33 corresponding to IFRS 2, *Share-based Payment*

16 AS 39 corresponding to IFRS 4, *Insurance Contracts*

17 AS 28 corresponding to IAS 36, *Impairment of Assets*

18 AS 22 corresponding to IAS 12, *Income Taxes*

19 AS 27 corresponding to IAS 31, *Interest In Joint Ventures*

20 AS 24 corresponding to IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*

21 AS 14 corresponding to IFRS 3 *Business Combination*

22 Accounting Standard corresponding to IFRS 9, *Financial Instruments*

23 Accounting Standard corresponding to IFRS 1, *First Time Adoption of International Financial Reporting Standards*

24 AS 30 corresponding to IAS 39, *Financial Instruments: Recognition and Measurement*

25 AS 31 corresponding to IAS 32, *Financial Instruments: Presentation*

26 AS 32 corresponding to IFRS 7, *Financial Instruments: Disclosures*. ■

Excellence in Financial Reporting – Role of Accountancy Profession: *Contribution of Audit*

The last ten years or so have seen massive leaps in information and technology. Since past few years, we are also witnessing a great expansion in not only the geographical spread but also in the penetration of the latest means of information exchange into the bottom most strata of the society. These technological development coupled with changes in the global political and socio-cultural mindsets have contributed immensely to the unhindered exchange of financial information on an online real time basis among a wide spread and depth of its users. As a corollary, financial information has come to play a critical role in the socio economic development of the world as we see it today. However, given its free flow and instant access, the impact of financial information circulating today in the world economy does not remain restricted to only the political boundaries. Rather, it has now a far wider and a more rapid domino effect on the national economies. The recent global financial meltdown of the West and its impact on Asia is a testimony of this phenomenon.

While the contribution of information technology to the *free flow and ready access* to financial information is undeniable, at this juncture we need to also appreciate the factors that have contributed to the wide *acceptability* among the various users and stakeholders in the financial reporting process. Of course, the accounting standards, promulgated after a rigorous due process by the various standard setters, have significantly improved the quality of information being provided to the financial information users. The standard setters also strive hard to respond to the accounting challenges thrown up by the rapidly changing face of the financial markets as well as the growing hunger of the users for more from financial information both in terms of quantity and quality. The number of accounting standards (or the financial reporting standards) issued by them dealing with the various financial reporting issues are a witness to this.

None of the financial reporting standards can address the unavoidable issue of the divorce between the preparers of financial statement and the users of the financial statements. Such remoteness of the preparers of the financial statements *vis-à-vis* its users has always been omnipresent and as old as the existence of trade and commerce itself, giving rise to the obvious gaps in the reliability of the financial statements. The answer to bridging this reliability gap was found in 'independent audit'. Audit is thus, one of the oldest professions of the world. Evidence of its existence in the form of a royal inspection has been found in ancient Egyptian civilisation (around 3000 BC). In India, audit finds

(Contributed by Auditing and Assurance Standards Board Secretariat of ICAI. It can be contacted at aasbicai.in)

mention in the *Arthashastra*, a widely acclaimed treatise on the statecraft, economic policy and military strategy written by Chanakya during the reign of Chandragupta Maurya in 350 – 283 BC in India. More recently, the auditing profession has grown significantly during the late 18th and the early 19th century at the time when the entire Europe was experiencing Industrial revolution. Again, it needs to be appreciated that this was the period marked by growth of corporate form of entrepreneurship, the agency relationship, where the management of the entity (which is also the preparer of the financial statements) is in a stewardship role *vis-à-vis* the owner of the entity being a prominent feature of such form of entrepreneurship.

In simplest terms, an audit is an independent examination of the financial information of any entity, whether profit oriented or not, and irrespective of its size or legal form. The prime objective of an audit, therefore, is to lend credibility to the financial statements generated by an entity. The culmination of an audit is the report of an auditor which contains the auditor's opinion on whether the financial statements have been prepared, in all material respects, in accordance with an applicable financial reporting framework. In the case of most general purpose frameworks, that opinion is on whether the financial statements give a true and fair view in accordance with the framework.

At this point it may be worthwhile to stop to appreciate as to why audited financial information commands greater value and acceptance among the stakeholders than unaudited financial information, despite the fact that even an auditor is as remote from the stakeholders as the management which prepares the underlying financial information (statements). The main reason lies in the definition of an audit itself *viz.*, audit is an ***independent*** examination of the financial information. World over, the auditing profession is governed by a strict code of ethical principles which aim at ensuring and protecting the independence and integrity of an auditor *vis-à-vis* the other stakeholders in the financial reporting process including the management. The word independent when used in the context of an auditor and/or his report is an ***implicit declaration*** by the auditor that he/ she has complied with the ethical principles and conditions, as applicable to the audit engagement, which ensure that the work done by the former is objective and free from any undue biases.

"The Institute of Chartered Accountants of India, the regulator of the auditing profession in India, right from its inception has recognised that the existence of the auditing profession hinges delicately on the trust that it commands in the society. Accordingly, it has been undertaking concerted efforts directed towards strengthening the ethical and performance requirements for the auditors by developing internationally benchmarked ethical and auditing standards. The Schedules to the Chartered Accountants Act 1949 contain detailed ethical requirements for the members of the Institute."

Another important (but lesser known and thus, lesser appreciated, by the users) reason for greater acceptance of audited financial information in the market is that an auditor is also bound to conduct the audit in accordance with the applicable auditing and quality control standards. The standards are a codification of the various best practices in the field of auditing and are developed by the various standard setters following a rigorous due process. The auditing standards deal with almost all the aspects of an audit from engagement acceptance to planning, audit evidence, conducting the various audit procedures including risk assessment, materiality considerations, auditor's responsibilities relating to fraud, communications with management to reporting.

The Institute of Chartered Accountants of India, the regulator of the auditing profession in India, right from its inception has recognised that the existence of the auditing profession hinges delicately on the trust that it commands in the society. Accordingly, it has been undertaking concerted efforts directed towards strengthening the ethical and performance requirements for the auditors by developing internationally benchmarked ethical and auditing standards. The Schedules to the Chartered Accountants Act 1949 contain detailed ethical requirements for the members of the Institute. In addition, the Institute has a dedicated Ethical Standards Board to develop the ethical parameters applicable to the auditors. The recently issued ICAI's revised Code of Ethics is at par with the Code of Ethics issued by the International Federation of Accountants. The auditing and other engagement standards applicable to the auditors in India are developed by the Auditing and Assurance Standards Board of the Institute and are issued under the authority of the Council of the Institute. These auditing and other engagement standards are at par with the International Standards issued by the International Auditing and Assurance Standards Board. The standard setting activity of the Institute is supplemented by an equally vigorous awareness activity in the form of mandatory Continuing Professional Education requirements for the practicing members. In addition, the Institute has a strong disciplinary and a peer review mechanism to ensure compliance with these Standards.

The following is an overview of some of the important literature issued by the Institute to strengthen the auditing profession in India:

Documents issued	Nos
• Quality Control Standard	01
• Standards on Auditing	36
• Standards on Review Engagements	02
• Standards on Assurance Engagements	01
• Standards on Related Services	02
• Statements on Auditing	02
• Guidance Notes – Generic	28
• Guidance Notes – Industry Specific	04
• Implementation Guides	02
• Technical Guides	03
• Studies	02
• Others	03

In addition to the above, a number of other projects are in the pipeline.

The above paragraphs amply reflect how audit is an important spoke in the wheel of socio-economic growth. It is, however, equally important for the users of the financial statements to understand the limitations of an audit and expectations from the former. Effective use of audited financial statements requires a basic understanding on the part of the user, of the fundamental accounting concepts and principles and a reasonable understanding of accounting standards, the related concepts of financial measurement and disclosure, and the inherent limitations of financial statements caused by the use of accounting estimates, judgments, and various alternative accounting principles and methods. Knowledgeable use of the auditor's report requires a general understanding of both the audit process as well as the meaning of the auditor's report.

The users of financial statements include present and potential investors, employees, lenders, suppliers and other trade creditors, customers, governments and their agencies and the public. While all of the information needs of these users cannot be met by financial statements, there are needs which are common to all users. As providers of risk capital to the enterprise, investors need more comprehensive information than other users. The provision of financial statements that meet their needs will also meet most of the needs of other users that financial statements can satisfy. An essential quality of the information provided in the financial statements is that it must be readily understandable by users. For this purpose, it is, among other factors, also essential that users have a reasonable knowledge of business and economic activities and accounting and study the information with reasonable diligence. In addition to reading the auditor's report, users must also evaluate the financial statements in the context of their specific needs. To appreciate various facts of audit of financial statements, it is inevitable that a reader understands the roles of those responsible for preparing the financial statements *vis-à-vis* the auditor.

To summarise, audit has an important role in development of the world economy by enhancing the degree of confidence of the users in the financial information. Audit will remain an instrument of growth and cherish the trust of the society only so long as the auditors are able to maintain their independence and integrity, both in fact as also in appearance and discharge their onerous responsibility objectively and with due professional care.

ANNEXURE

Revised/ New Standards on Auditing (SAs) issued under the Clarity Project (as on June 1, 2010)

NOTE: Effective date means that the SA is effective for audits of the financial statements for periods beginning on or after the specified date

SA	Title of Standard on Auditing	April 1, 2008	April 1, 2009	April 1, 2010	April 1, 2011
SQC 1	Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements		✓		
200-299	**General Principles and Responsibilities**				
200 (Revised)	Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing[1]			✓	
210 (Revised)	Agreeing the Terms of Audit Engagements[2]			✓	
220 (Revised)	Quality Control for an Audit of Financial Statements			✓	
230 (Revised)	Audit Documentation[3]		✓		

[1] *The Council, at its 292nd meeting held from January 12 to 13, 2010, has approved the Standards on Auditing (SA) 200, SA 220, SA 501, SA 505, SA 520, SA 620, SA 710, SA 800, SA 805 and SA 810. The Standards are in the process of finalization pursuant to the deliberations of the Council and will be issued soon.*

[2] *Published in the September, 2009 issue of the Journal.*

[3] *Published in January, 2009 issue of the Journal.*

240 (Revised)	The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements[4]		✓		
250 (Revised)	The Auditor's Responsibilities Relating to Laws and Regulation in an Audit of Financial Statements[5]		✓		
260 (Revised)	Communication with Those Charged with Governance[6]		✓		
265	Communicating Deficiencies in Internal Control to Those Charged with Governance and Management[7]			✓	
300-499	**Risk Assessment and Response to Assessed Risks**				
300 (Revised)	Planning an Audit of Financial Statements[8]	✓			
315	Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment[9]	✓			
320 (Revised)	Materiality in Planning and Performing an Audit[10]			✓	
330	The Auditor's Responses to Assessed Risks[11]	✓			
402 (Revised)	Audit Considerations Relating to an Entity Using a Service Organisation[12]			✓	
450	Evaluation of Misstatements Identified during the Audit[13]			✓	
500–599	**Audit Evidence**				
500 (Revised)	Audit Evidence[14]		✓		
501 (Revised)	Audit Evidence - Specific Considerations for Selected Items			✓	
505 (Revised)	External Confirmations			✓	
510 (Revised)	Initial Audit Engagements—Opening Balances[15]			✓	
520 (Revised)	Analytical Procedures			✓	
530 (Revised)	Audit Sampling[16]		✓		
540 (Revised)	Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures[17]		✓		
550 (Revised)	Related Parties[18]			✓	
560 (Revised)	Subsequent Events[19]		✓		
570 (Revised)	Going Concern[20]		✓		
580 (Revised)	Written Representations[21]		✓		
600-699	**Using Work of Others**				
600	Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)	*Under the consideration of the Board*			
610 (Revised)	Using the Work of Internal Auditors[22]			✓	
620 (Revised)	Using the Work of an Auditor's Expert			✓	
700-799	**Audit Conclusions and Reporting**				
700 (Revised)	Forming an Opinion and Reporting on Financial Statements				✓
705	Modifications to the Opinion in the Independent Auditor's Report[23]				✓
706	Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report				✓
710 (Revised)	Comparative Information - Corresponding Figures and Comparative Financial Statements				✓
720	The Auditor's Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements[24]			✓	

[4] *Published in December, 2007 issue of the Journal.*
[5] *Published in December, 2008 issue of the Journal.*
[6] *Published in December, 2008 issue of the Journal.*
[7] *Published in the September, 2009 issue of the Journal.*
[8] *Published in December, 2007 issue of the Journal.*
[9] *Published in February, 2008 issue of the Journal.*
[10] *Published in the August, 2009 issue of the Journal.*
[11] *Published in February, 2008 issue of the Journal.*
[12] *Published in the August, 2009 issue of the Journal.*
[13] *Published in the August, 2009 issue of the Journal.*
[14] *Published in April, 2009 issue of the Journal.*
[15] *Published in March, 2009 issue of the Journal.*
[16] *Published in February, 2009 issue of the Journal.*
[17] *Published in February, 2009 issue of the Journal.*
[18] *Published in March, 2009 issue of the Journal.*
[19] *Published in January, 2009 issue of the Journal.*
[20] *Published in December, 2008 issue of the Journal.*
[21] *Published in October, 2008 issue of the Journal.*
[22] *Published in the August, 2009 issue of the Journal.*
[23] *The final SA 700 (R), SA 705 and SA 706 published in February, 2010 issue of the Journal.*
[24] *Published in April, 2009 issue of the Journal.*

800-899	Specialized Areas				
800	Special Considerations-Audits of Financial Statements Prepared in Accordance with Special Purpose Framework				✓
805	Special Considerations-Audits of Single Purpose Financial Statements and Specific Elements, Accounts or Items of a Financial Statement				✓
810	Engagements to Report on Summary Financial Statements				✓

	STANDARDS ON REVIEW ENGAGEMENTS	Effective Date
2400	Engagements to Review Financial Statements	01.04.2010
2410	Review of Interim Financial Information Performed by the Independent Auditor of the Entity	01.04.2010
	STANDARDS ON ASSURANCE ENGAGEMENTS	
3400	The Examination of Prospective Financial Information	01.04.2007
	RELATED SERVICES	
4400	Engagements to Perform Agreed upon Procedures regarding Financial Information	01.04.2004
4410	Engagements to Compile Financial Information	01.04.2004

List of Guidance Notes

1. Provision for Proposed Dividend
2. Auditing of Accounts of Liquidators
3. Guidance Note on Independence of Auditors (Revised)
4. Preparation of Financial Statements on Letter-heads and Stationery of Auditors
5. Guidance Note on Certificate to be Issued by the Auditor of a Company Pursuant to Companies (Acceptance of Deposits) Rules, 1975
6. Guidance Note on the Duty Cast on the Auditors under Section 45-MA of the Reserve Bank of India Act, 1934
7. Guidance Note on Audit Reports and Certificates for Special Purposes
8. Guidance Note on Section 293 A of the Companies Act and the Auditor
9. Guidance Note on Audit of Fixed Assets
10. Guidance Note on Audit of Accounts of Non-Corporate Entities (Bank Borrowers)
11. Guidance Note on Reports in Company Prospectuses (Revised)
12. Guidance Note on Audit of Abridged Financial Statements
13. Guidance Note on Certification of Documents for Registration of Charges
14. Guidance Note on Audit of Inventories
15. Guidance Note on Audit of Investments
16. Guidance Note on Audit of Debtors, Loans and Advances
17. Guidance Note on Audit of Cash and Bank Balances
18. Guidance Note on Audit of Liabilities
19. Guidance Note on Audit of Revenue
20. Guidance Note on Certificate on Corporate Governance (Revised)
21. Guidance Note on Section 227(3) (e) and (f) of the Companies Act, 1956 (Revised)
22. Guidance Note on Audit of Expenses
23. Guidance Note on Special Consideration in the Audit of Small Entities
24. Guidance Note on Audit of Miscellaneous Expenditure [Revised]
25. Guidance Note on Audit of Consolidated Financial Statements
26. Guidance Note on Computer Assisted Audit Techniques (CAATs)
27. Guidance Note on Audit of Payment of Dividend
28. Guidance Note on Audit of Capital and Reserves

Industry Specific Guidance Notes

- Audit of Banks (Revised 2009 edition)
- Audit of Accounts of Members of Stock Exchanges
- Audit of Companies Carrying on General Insurance Business
- Audit of Companies Carrying on Life Insurance Business

Other Publications (Non – authoritative)

Implementation Guides

- Implementation Guide to SQC 1
- Implementation Guide to Risk-based Audit of Financial Statements

Technical Guides

- Technical Guide on Audit in Telecom Industry – Revenue, Fixed Assets and Related Operating Costs
- Technical Guide on E-Commerce-Considerations for Audit of Financial Statements
- Practitioner's Guide to Audit of Small Entities

Studies

- A Study on Money Laundering: An Accountant's Perspective
- A Study on Basel II and Risk-based Supervision

Other Important Publications

- Training Manual on Engagement and Quality Control Standards
- Revised version - What is an Audit – Understanding an Audit of Financial Statements.
- Issues on the Companies (Auditor's Report) Order, 2003. ■

Emphasis on Financial Reporting with Respect to Financial Markets and Investors' Protection

(Contributed by the Committee on Financial Markets and Investors' Protection of ICAI. It can be contacted at cfmip@icai.org)

The bubble of globalisation emerged far back in late 1980's with some signs of policy developments. However, the process of globalisation remained very slow at that time. In the year 1991, the then Finance Minister Dr. Manmohan Singh opened the doors of liberalisation and globalisation and invited foreign direct investment and demolished import quotas. Emphasis was on stabilisation i.e. short term policies to lower the inflation rate and structural changes and long term measure for promoting export, Foreign Direct Investment (FDI) and convertibility on current account. The open doors for globalisation were a strong impetus for India's economic growth and made Indian stock market one of the most happening and emerging market globally. As economy grew our stock markets started flourishing. The Indian stock market got a setback in year 1992 when a single person succeeded in manipulating the shares on a large scale by taking advantages of the loopholes in the Indian Banking system. To prevent recurrence of such incidences, the Government, in the 1992 itself, by way of an Act established the Securities and Exchange Board of India (SEBI) to regulate the share markets in India. The Capital Issues (Control) Act of 1947 was replaced in the year 1992 and SEBI emerged as a new regulator for the Indian Stock Markets. The basic objective of formation of SEBI was "…..to protect the interests of investors in securities and to promote the development of, and to regulate the securities market and for matters connected therewith or incidental thereto".

The Institute of Chartered Accountants of India as 'Partner of Nation Building' always plays active role in supporting government in all its initiatives. Accordingly, the Committee on Capital Market and Investors' Protection was set up by the Institute in the year 1994-95. Since the financial service sector witnessed stupendous growth in those years, the Committee in order to widen its scope, in the year 1999-2000, changed its nomenclature to Committee on Financial Markets and Investors' Protection. The main objectives of the Committee is to prepare suggestions on various Bills/ Regulations/ Notifications/ Circulars and other documents relating to Financial Markets for submission to the Government/ Regulators, to bring out Booklets/ Monograms/ research publications in the field of Financial Markets, Commodity Markets, Money Markets, Corporate Governance, Investors Protection and on other topics of interest to investors. Besides, the Committee is entrusted with the task of conducting training programmes and conferences for Members and others on matters relating to Financial markets and Investors' Protection.

Realising the growing need of Corporate Governance and Investor Protection, the Committee on Financial Markets and Investor's Protection chartered its action plan with significant number of initiatives. Its interaction with the regulators such as Ministry of Company Affairs and the Securities and Exchange Board of India and various exchanges were by and large pro-active. The Committee submitted suggestions to the Government/regulator on various items such as revival of the primary & secondary capital markets, issues relating to takeover code, issues relating to speculative transactions, programme on investor's protection, etc. The Committee focused mainly on two major issues i.e. emerging role of Chartered Accountants in corporate governance and bringing awareness among the investors on the intricacies in the capital market. Study Groups were constituted on different subjects relevant to the capital market, investor protection and to the members at large.

The Committee has represented the Institute in almost all Committees of the SEBI and has actively contributed on the various policy matters such as suggestions before the SEBI Advisory Committee on reforms in the primary capital market. The Committee also submitted its detailed suggestions/ comments on the rules/regulations relating to Financial Companies Regulations Bill, 2000; Indian Depository Rules, 2001; Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Ordinance, 2002 and Nidhi Companies.

Very recently, the year 2009 witnessed a broader look for Indian Capital Market. To get on a sustainable long-term growth path and to pull the country out of the recession, Indian government had introduced various structural reforms like encouraging people to spend, shifting form capital-intensive manufacturing to labour intensive services apart from infrastructural developments. Today, Indian markets are very much related to global markets. There are few economies that appear as attractive as India. FIIs are considering India and other emerging markets as areas of significant growth for wealth creation. The Government and market regulator (SEBI) are toying up with new policies in relation to the FII's for the benefit of investors at large.

The recent financial crisis which swamped all across the world left a deep impact on the markets and investors. It raises a question mark on financial reporting, regulations and business practices for the Indian Corporates. There is an urgent need to educate investors, create awareness as to their protection, to enhance their ability to understand broad developments in the country having bearing on the corporate sector and the capital market, to educate them on their rights and responsibilities, and to make them aware of grievances handling mechanism and different agencies to be approached for redressal.

> **The main objectives of the Committee is to prepare suggestions on various Bills/ Regulations/ Notifications/ Circulars and other documents relating to Financial Markets for submission to the Government/ Regulators, to bring out Booklets/ Monograms/ research publications in the field of Financial Markets, Commodity Markets, Money Markets, Corporate Governance, Investors Protection and on other topics of interest to investors.**

Since its inception in the year 1994-95, the investor education and protection is one of the most focused areas of the Committee, and a number of Investor Awareness Programmes have been organised in association with Ministry of Corporate Affairs, various stock exchanges, Investors associations on regular basis besides developing educative material for them. The Committee has already organised 150 such programmes till date and has taken the task of conducting 750 Investor Awareness Programmes in the year 2010-11 only.

In the year 2009-10, the Committee had made representation to the BSE/ NSE/SEBI on the issue relating to reduction in the number of trading holidays for stock exchanges in tune with the international practices.

In addition to above, the Committee also conducted various other programmes such as Investor Summit, Private Equity workshops and Career Counseling Programmes, etc. The Committee has also published various publications such as booklets & pamphlets on Investors Awareness, Hand Book on Capital Market Regulations, Background Material on Private Equity and Guidance Note on Certification of Corporate Governance.

The Committee on Financial Markets and Investors' Protection is playing a pro-active role in enriching the knowledge of investors in relation to the Capital Market. ■

Implementing Accrual Based Accounting System

The ICAI Accounting Research Foundation (ARF) was set up as a Section 25 company in January 1999. It was promoted by the Institute of Chartered Accountants of India (ICAI). Over the years, it has accelerated its work programme as an academy for imparting, spreading and promoting knowledge, learning, education and understanding in the various fields related to accounting and finance. The ICAI ARF has undertaken many projects involving basic and applied research. The ICAI ARF believes that proper research inputs are necessary for raising the level of corporate governance, management, accounting and financial reporting. High quality research projects based on practical experience with theoretical extrapolations also provide valuable inputs in formulation of policies and implementation thereof at macro and micro levels.

(Contributed by ICAI – Accounting Research Foundation. It can be contacted at gvallabh@icai.org)

In the year 2001, in response to a writ petition before it, a Bench of the Hon'ble Supreme Court of India ordered that the Municipal Corporation of Delhi (MCD) and the New Delhi Municipal Corporation (NDMC) "will be required to maintain accounts as per the mercantile system (accrual system) of accounting and stated the necessary amendments to the regulations be carried out by the Government of India, for the same. Thereafter, several Municipal Corporation and other Central/State government bodies have decided for gradually moving towards conversion of their accounts from cash basis to accrual basis of accounting system for transparency of accounts. The above decision is mainly on account of transparency and subsequent decision making as the cash basis of accounting does not fulfill the requirements.

The foundation office has taken up an initiative and undertaken the MCD Project for conversion of accounts from single entry to double entry accounting system and thereafter similar projects were undertaken by ICAI ARF on conversion of accounts from Cash to Accrual Basis Accounting System for Municipal Corporation of Kolkata (KMC), Controller General of Accounts (CGA) and Department of Posts (DoP) etc. and share its experience and expertise.

In the meanwhile, in 2002, the Government of India through the budgetary provisions for fiscal 2002, recommended that the Development Authorities and Housing Boards be brought under the tax net and therefore, amended Section 10 (20A) of the Income-tax Act, 1961. This has also given rise to cause for concern in the large number of such bodies in the country. In order to determine income tax liability, accounting on the accrual system became a pre-requisite. Thus, the need for the conversion of accounts of Municipal Corporations and Development Authorities had been created through a Government diktat.

In this context, the foundation office has taken up an initiative and undertaken the MCD Project for conversion of accounts from single entry to double entry accounting system and thereafter similar projects were undertaken by ICAI ARF on conversion of accounts from Cash to Accrual Basis Accounting System for Municipal Corporation of Kolkata (KMC), Controller General of Accounts (CGA) and Department of Posts (DoP) etc. and share its experience and expertise.

While converting the accounts from single entry to double entry, the accounting heads are restructured based on accrual system of accounting. The existing heads are either modified or dropped keeping the requirements of the accrual system in view. For doing this, the existing system of accounting is to be studied thoroughly and heads of assets and liabilities are finalised. Thereafter the formats are designed for capturing information from drawing opening balance sheet. Then, accounting policies are changed for recognising the revenue received/ receivable, expenditure paid/payable, fixed assets, investments, depreciation, impairment, etc. Accounting manual is also developed showing system of codification of accounts, forms, formats and general accounting policies. The manual also includes reconciliation and internal control procedures. For effective implementation of conversion the foundation trains key employees of the organisation concerned not only for the system being implemented in the organisation but also for the system of double entry accounting.

Some of the organisations where ICAI-ARF implemented accrual based accounting system are MCD, KMC, CGA and DoP, etc., These organisations would have gained through improved governance, better control over assets, increasing the confidence of all stakeholders and availability of more accurate information for decision-making with all stakeholders.

It may be noted that various municipalities and government departments incur huge public expenditure. For instance, the total budget of DoP stood at about Rs. 7929 crore. This includes Rs. 540 crore under Plan Head and Rs. 7389 crore under Non-Plan allocation (Source: Annual Report 2008-09). Under cash basis of accounting, assets and liabilities are not reported. Therefore, such accounts are not transparent and, accordingly, it is difficult to meet the governance criteria of public accountability.

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Financial Statements prepared by following accrual basis of accounting provide authentic and accurate information on government position, resulting in better flow of resources in the economy and generally better economic performance. For instance, MCD has been able to identify a number of idle assets that were hitherto not being put to any gainful use.

Applied Research Projects of ICAI-ARF

Completed Research Projects		
(I)	MCD Project for conversion of accounts (Accrual Basis)	The project aimed at introduction of accrual system of accounting in the Municipal Corporation of Delhi.
(II)	KMC Project for conversion of Accounts (Accrual Basis)	The project aimed at introduction of accrual system of accounting in Kolkata Municipal Corporation.
(III)	CGA Project for conversion of accounts (Accrual Basis)	The project aimed at introduction of accrual system of accounting in identified pilot units of Government of India.
Ongoing Research Projects		
(I)	Department of Posts Project for conversion of Accounts (Accrual basis)	The Project aimed to introduction of accrual system of accounting in the identified pilot units of Department of Posts, Govt. of India.
(II)	NHPC Project for Implementation of IFRS	NHPC has approached the ICAI ARF to take up the aforesaid project. The project is first of its kind for implementation of IFRS in NHPC. In the aforesaid project, the foundation office will assist NHPC for “first time adoption of IFRS”.

■

Internal Audit – Integral to Quality Financial Reporting

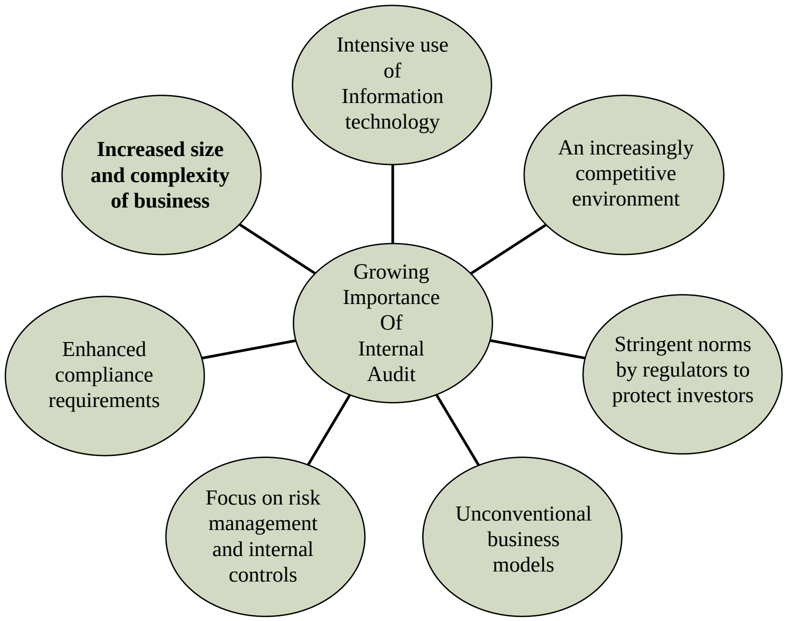
Originally developed as a means of assisting organisations with safeguarding corporate assets and enforcing corporate policies to preserve value, internal audit is expanding its traditional role. As organisations look to operate more efficiently in the challenging economic climate and navigate complex legal compliance requirements, internal audit has gained more importance than ever before. In modern business environment, the internal audit function has become a major support function for management, the Audit Committee, the Board of Directors, the external auditors, and other key stakeholders. When properly designed and implemented, the internal audit function can play a key role in promoting and supporting effective organisational governance.

(Contributed by Internal Audit Standards Board of ICAI. It can be contacted at cia@icai.in)

Internal audit is a management function, thus, it has the high-level objective of serving management's needs through constructive recommendations in areas such as, internal control, risk, utilisation of resources, compliance with laws, management information system, etc. Leading organisations are looking for the internal audit function to assume a leadership role in assessing and managing their strategic risks, adding value to the organisation and identifying operational improvement opportunities.

Improving Disclosure and Transparency Process

Disclosure and Transparency have become the first hallmark of good governance looked to by the investors. Quality financial reports, including reliable financial statements free of material misstatements due to errors and fraud, can be achieved when there is a well-balanced, functioning system of corporate governance. A good corporate governance system nevertheless requires effective inter-relationships among the relevant



corporate participants. The Blue Ribbon Committee Report[1] lays down that, "A proper and well functioning system exists, therefore, when the three main groups responsible for financial reporting -- the full board including the audit committee, financial management including the internal auditors, and the outside auditors -- form a "three-legged stool" that supports responsible financial disclosure and active and participatory oversight".

Internal auditor plays an important role in quality financial reporting as it is responsible for objectively assessing the management's accounting practices and internal controls, and that the external auditors, through their own review, assesses management and internal auditor's practices. Further, responsible financial reporting is derived in large part from an effective system of internal controls. While management is responsible for internal controls, the internal auditor is in a position to evaluate and report on the adequacy and effectiveness of internal control. Internal audit, therefore, provides assurance that there is transparency in financial reporting, as a part of good governance.

Internal Audit Standards Board

Internal audit related activities have also been prime focus for the Institute of Chartered Accountants of India. Accordingly, the Institute had constituted a non-standing Committee, Committee on the Internal Audit on 5th February, 2004. The prime objective of the Committee, as approved by the Council in its terms of reference, is to reinforce the primacy of the Institute of Chartered Accountants of India as a promoter, source and purveyor of the knowledge of internal audit in the country. The basic idea was to enable the members of the Institute to provide more effective and efficient value added services related to the field of internal audit so as to enable the clients to systematise and strengthen their governance process by systematising and strengthening their control and risk management process. Considering the role being played by the Committee on Internal Audit in growth and development of the internal audit profession in India, the Committee had been converted into "Internal Audit Standards Board" in November 2008.

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The objectives of the Internal Audit Standards Board (IASB) of the Institute of Chartered Accountants of India are as follows:

- To review the existing internal audit practices in India.
- To develop Standards on Internal Audit (SIAs) to be issued under the authority of the Council of the Institute.
- To develop Guidance Notes on the issues relating to internal audit, including those arising from the SIAs, to be issued under the authority of the Council of the Institute.
- To undertake research in the field of internal audit
- To organise/ provide technical assistance in conferences, workshops, etc., on the topics related to internal audit organised by the Institute.

Standards on Internal Audit

The Board has till date issued 17 Standards on Internal Audit (SIAs) and the list is given in Appendix I. The SIAs aim to codify the best practices in the area of internal audit and also serve to provide a benchmark of the performance of the internal audit services. Thus, SIAs constitute an important tool in helping the internal auditors provide effective and efficient

[1] *Report and Recommendations of the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees*

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internal audit services to the clients and/ or employers. All these Standards have been developed and cleared after following a due process for the purpose as approved by the Council of the Institute and have the benefit of the deliberations and review by experts in the field of internal audit. While formulating SIAs, the Board takes into consideration the applicable laws, customs, usages and business environment and generally accepted auditing practices in India. The Board may also, where it considers appropriate, take into consideration the international practices in the area of internal audit, to the extent they are relevant to the conditions existing in India. Preface to the Standards on Internal Audit issued by the Institute lays down detailed procedure for issuance of the Standards on Internal Audit. Further, Framework for Standards on Internal Audit has been issued with the objective of promoting professionalism in the internal audit activity. It covers all aspects of an internal audit activity, including planning, gathering evidence, documentation, using the work of other experts, evaluating controls and risk management systems and reporting.

Standards on Internal Audit cover a variety of areas needing standardisation covering aspects such as reporting, terms of engagement, quality assurance, internal control evaluation, enterprise risk management, etc. This demonstrates the critical role that internal audit plays in an organisation’s operational effectiveness and ultimate financial well-being, both of which are of utmost importance during times like these. Till date, Standards on Internal Audit (SIAs) are recommendatory in nature, however, it is important that internal audit work is conducted in accordance with SIAs as these standards assist in:

- providing confidence in the quality and consistency of the work that has been conducted
- guiding the work of internal auditors
- delivering auditing services in an effective and efficient way, and
- establishing standards and benchmarks against which to measure the performance of internal audit.

Industry Specific Technical Guides

In addition to bringing out Standards, the Board is also working aggressively on formulating industry specific guidelines as well as general guidelines on internal audit. The Board had issued Technical Guide on Internal Audit of Oil & Gas Industry, Aluminium Industry, Telecommunications Industry, Stock Brokers, Intangible Assets, etc. The basic objective of these Technical Guides is to help the members as well as other readers in understanding the basic operations undertaken in the relevant industry. This also describes the detailed procedure to be undertaken by the internal auditor in respect of the specified areas.

Other Publications

The General Guidelines on Internal Audit brought out by the Board contains literature on various important aspects of internal audit. In addition, the Board also brought out a number of other publications to impart knowledge about the emerging concepts in internal audit such as Guide to Implementing Enterprise Risk Management, Guide on Risk-based Internal Audit, Guide to Internal Controls over Financial Reporting Manual on Concurrent Audit of Banks, Manual on Internal Audit and Training Material on Internal Audit, etc.

Annexure I

The list of Standards on Internal Audit is as follows:

(i)	Standard on Internal Audit (SIA) 1, Planning an Internal Audit
(ii)	Standard on Internal Audit (SIA) 2, Basic Principles Governing Internal Audit
(iii)	Standard on Internal Audit (SIA) 3, Documentation
(iv)	Standard on Internal Audit (SIA) 4, Reporting
(v)	Standard on Internal Audit (SIA) 5, Sampling
(vi)	Standard on Internal Audit (SIA) 6, Analytical Procedures
(vii)	Standard on Internal Audit (SIA) 7, Quality Assurance in Internal Audit
(viii)	Standard on Internal Audit (SIA) 8, Terms of Internal Audit Engagement
(ix)	Standard on Internal Audit (SIA) 9, Communication with Management
(x)	Standard on Internal Audit (SIA) 10, Internal Audit Evidence
(xi)	Standard on Internal Audit (SIA) 11, Consideration of Fraud in an Internal Audit
(xii)	Standard on Internal Audit (SIA) 12, Internal Control Evaluation
(xiii)	Standard on Internal Audit (SIA) 13, Enterprise Risk Management
(xiv)	Standard on Internal Audit (SIA) 14, Internal Audit in an Information Technology Environment
(xv)	Standard on Internal Audit (SIA) 15, Knowledge of the Entity and its Environment
(xvi)	Standard on Internal Audit (SIA) 16, Using the Work of an Expert
(xvii)	Standard on Internal Audit (SIA) 17, Consideration of Laws and Regulations in an Internal Audit

■

Ensuring Overall Quality of General Purpose Financial Statements

Reliable and meaningful financial reporting is a must for economic well-being and development of the country. Excellence in financial reporting translates into excellence in economic performance of the country. As such, Institute of Chartered Accountants of India, over the years, has taken many an initiative to facilitate and ensure excellence in financial reporting in the country. One of such major initiative was formation of the Financial Reporting Review Board (FRRB) in July 2002.

(Contributed by Financial Reporting Review Board of ICAI. It can be contacted at frrb@icai.org)

Objective of FRRB

The FRRB comprises members of the Council of the Institute as well as representatives of various regulatory authorities. The primary function of the FRRB is to review the compliance *inter alia* with the reporting requirements of various applicable statutes, Accounting Standards and Auditing and Assurance Standards issued by the ICAI to improve the overall quality of General Purpose Financial statements.

The Board reviews general purpose financial statements and the auditors' reports thereon of certain randomly selected enterprises with a view to determine, to the extent possible:

- Compliance with the generally accepted accounting principles in the preparation and presentation of financial statements;
- Compliance with the disclosure requirements prescribed by regulatory bodies, statutes and rules and regulations relevant to the enterprise; and
- Compliance with the reporting obligations of the auditor.

Scope

The FRRB can review the general purpose financial statements of the enterprise and the auditor's report thereon either *suo motu* or on a reference made to it by any regulatory body like, the Reserve Bank of India, SEBI, IRDA, Ministry of Corporate Affairs, etc. The FRRB may also review general purpose financial statements of the enterprises and the auditor's report thereon relating to which serious accounting irregularities in the general purpose financial statements have been highlighted by the media reports.

The enterprises within the purview of the FRRB include:

- Enterprises whose debt or equity securities are listed on a recognised stock exchange in India;
- Public financial institutions and banks;

- Non-listed and other commercial enterprises having a turnover of Rs.50 crore or more; and
- Such other category of enterprises which in the opinion of the Board make the public interest vulnerable due to susceptibility to non-compliance of generally accepted accounting principles in the preparation and presentation of financial statements, non-compliance of the disclosure requirements prescribed by regulatory bodies, statutes and rules and regulations relevant to the enterprise and non-compliance of the reporting obligations of the enterprise and the auditor.

Process

For *suo motu* reviews, the FRRB decides every year, the number of companies to be reviewed in each Council year. The companies are short-listed on the basis of the criteria decided by the Board, from time to time, using the company database available from a nationally renowned source. After short-listing, the companies are sorted in the ascending order of turnover. From this list, the required number of companies is selected using scientific methods such as random sampling. In its reviews, the FRRB is assisted by its various Financial Reporting Review Groups (FRRGs) as well as Technical Reviewers. The preliminary review is conducted by the Technical Reviewers selected from the panel maintained by the Board. On receipt of preliminary review reports of Technical Reviewers they are thereafter considered and finalised by Financial Reporting Review Groups before the same are finally examined by the Board. The Technical Reviewers as well as the members of the FRRGs are adequately trained by the FRRB and work under strict confidentiality requirements.

“The FRRB can review the general purpose financial statements of the enterprise and the auditor’s report thereon either *suo motu* or on a reference made to it by any regulatory body like, the Reserve Bank of India, SEBI, IRDA, Ministry of Corporate Affairs, etc. The FRRB may also review general purpose financial statements of the enterprises and the auditor’s report thereon relating to which serious accounting irregularities in the general purpose financial statements have been highlighted by the media reports.”

Specific Action

In case the FRRB finds any non-compliance with the reporting requirements of various applicable statutes, Accounting Standards and Auditing and Assurance Standards, it refers the case to the Director (Discipline) to the Institute of Chartered Accountants of India for initiating action against the auditor under the Chartered Accountants Act, 1949. In so far as the management of the enterprise is concerned, pending the grant of relevant powers to the FRRB by the Central Government, the FRRB informs irregularity to the regulatory body relevant to the enterprise.

In cases where no material non-compliance and/or non-compliance affecting the true and fair view of financial statements are observed by the FRRB, and only immaterial non-compliance and/or non-compliance, which do not affect the true and fair view of financial statements are observed, the FRRB may not refer the case to the Director (Discipline) of the ICAI for initiating action against the auditor under the Chartered Accountants Act,

“In case the FRRB finds any non-compliance with the reporting requirements of various applicable statutes, Accounting Standards and Auditing and Assurance Standards, it refers the case to the Director (Discipline) to the Institute of Chartered Accountants of India for initiating action against the auditor under the Chartered Accountants Act, 1949.”

1949. In such cases, the FRRB would appropriately bring the non-compliance to the attention of the auditor and/or the enterprise concerned. Till March 2010, the FRRB has taken up the review of 411 enterprises, out of which 90 cases have been referred to the Director (Discipline) of the Institute and/ or to the relevant regulators and for 122 cases appropriate note on non-compliances have been issued to the auditors of the enterprises which have been observed by the Board during the review of the financial statements of such enterprises.

Role and Approach of FRRB

The FRRB is recommending action to the various regulatory authorities including MCA, SEBI, C&AG, IRDA, etc., and, therefore, this is the single agency that is serving the purpose of improving transparency in financial reporting for all concerned regulators. The autonomy of the Board could be greatly enhanced if it is given more authority in terms of calling for additional information from the concerned auditors or management of the enterprises under review.

The Board envisages to improve the overall quality of General Purpose Financial statements which is important to the healthy functioning of business and markets and thus as making a significant contribution to the economy overall. ■

Facilitating Accounting Reforms in Local Bodies in India

The Indian economy is on the move and witnessing the process of globalisation and economic liberalisation since 1991, which has led to the increase in the activities of the Government concurrently and has brought a change in the philosophy or role of the Government including Local Bodies. The increasing urbanisation in India has amplified the incurrence of expenditure in terms of providing adequate urban infrastructure and raising of commensurate resources by the Local Self Governments.

(Contributed by ICAI's Committee on Accounting Standards for Local Bodies. It can be contacted at caslb@icai.in)

Local bodies, such as, Municipal Corporations, Municipalities and Panchayats, are at the third tier of the Government. Local Bodies are generally concerned with provision of public goods and services to citizens, provision of social welfare, macro-economic management of the economy, management of its assets and liabilities and economic prosperity of its people. Consequently, in a democratic society like ours, the citizens deserve a fair account of how their money is being used by the Government and how effectively the financial affairs of the economy are being managed by the Government. In this dynamic scenario, the objectives of accountability and transparency have gained a lot of importance and it has become increasingly necessary for the users of the public money to respond to the needs of the citizens of a particular country.

One of the means of ensuring public accountability and transparency, whether in the case of commercial enterprises or in the case of the Government including Local Bodies, is the dissemination of relevant financial information about the operating activities of the entity and its financial condition. Financial information is often communicated through financial reports. These financial reports may serve several uses, such as, these can be used to compare actual financial results against the legally adopted budget; to assess financial condition and results of operations; assist in determining compliance with finance-related laws, rules, and regulations; and assist in evaluating efficiency and effectiveness.

However, the objectives of accountability and transparency in the financial reporting by Local Bodies cannot be attained under the traditional method of accounting i.e. Cash Basis of Accounting presently in use by the Local Bodies in India and this is the main constraint to their strong financial management and transparency in their financial reporting. The information provided under cash accounting is easy to compile and understand, and historically, met the requirements of users. However, today the users of financial statements are demanding more information on assets and liabilities and the impact of current consumption of assets on the overall financial position.

Cash-based accounting fails to meet many financial reporting objectives. Evaluation of performance of Local Bodies requires the measurement of accomplishments and the resources expended on them during a period. But the timing of cash receipts and payments may not coincide with earning revenues or incurring expenses. Another major weakness of cash-based accounting is that no distinction is made between receipts or payments on capital accounts and those on revenue accounts. With cash accounting, spending on the assets used over many years is recorded only when money is spent. No subsequent account is taken of depreciation or whether the asset is still in use. Cash accounting limits the ability of the citizens to hold Local Bodies accountable for their use of resources. Local Bodies can be held accountable only for their use of cash, but not for their management of other assets and liabilities. Consequently, measurement of performance and financial position under the cash accounting is unlikely to yield correct results.

Keeping in view the limitations of the cash based accounting, it is imperative to introduce generally acceptable accounting practices and disclosure norms in accounting for Local Bodies so as to bring the concepts of accountability and transparency in its financial reporting system itself.

Moreover, there seems to be a current trend towards fiscal discipline in Government that has generated a demand for better information on which to base decisions. Consequently, a need was felt that Local Bodies must change their financial reporting to a more corporate-style reporting system that offers analysis of the long-term impact of financial management decisions. Thus, there is an urgent need to improve accounting systems of Local Bodies in the country to provide leaders and citizens of local bodies with more accurate and complete financial information.

In view of this, the Government of India and the Institute of Chartered Accountants of India (ICAI) as a premier accounting body, have undertaken various measures to improve the accounting of Government including local bodies in India. The eleventh finance commission in the year 2001 recommended the introduction of double entry system of accounting in Government. The Government has also taken various steps to persuade Local Bodies to move to accrual basis from cash basis. 74th constitutional amendment act also made urban local bodies an institution of Self-Government, empowering them to discharge functions assigned to them under the constitution. To strengthen the financial position of the urban local bodies, the 12th Finance Commission provided grants-in-aid of Rs 5,000 crore to the States/Union Territories during the period 2005-10.

“ICAI has always been deeply involved in accounting reforms in Government accounting particularly the accounts of Urban Local Bodies. The ICAI initially constituted a Sub-Committee for issuing accounting standards for Urban Local Bodies in 1999. As the first step, the ICAI issued a Technical Guide on Accounting and Financial Reporting by Urban Local Bodies, which contains recommendations relating to application of accounting standards issued by the ICAI, to urban local bodies.”

In this changing environment, sincere efforts are being made by many Local Bodies to switch over to the accrual system of accounting particularly after the issuance of the National Municipal Accounts Manual (NMAM). Tamil Nadu is the first State in India to introduce an accrual based accounting system in all municipalities and municipal corporations, which it did effective from April 1, in 2000.

Further, to help urban local bodies (ULB) meet the growing challenges, the Central Government's Jawaharlal Nehru National Urban Renewal Mission (JNNURM) has also given a fresh impetus for urban reform. Under this programme, the accounting reforms in sixty three municipal corporations in India are being progressing successfully.

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ICAI Accounting Research Foundation (ICAI-ARF), set up by the ICAI as a Section 25 company was assigned the work of conversion of the accounts of the Municipal Corporation of Delhi (MCD) from single entry basis to double entry basis. To disseminate the expertise gained through this project, the Institute had issued a publication on *'Conversion of Accounts of Municipal Bodies to Accrual Basis'*, which contains recommendations on adoption of accrual basis of accounting by Municipal Bodies and the transitional issues involved in conversion of accounts of such bodies.

Many Local Bodies in the country are shifting to accrual basis of accounting, but it has been observed that these bodies are following diverse accounting policies and practices in preparation of their financial statements. This transformation requires established accounting standards upon which uniform financial reporting can be based. Accounting profession owes a responsibility for formulating accounting standards to satisfy the huge expectations of the society, to ensure reliable, credible and transparent financial reporting.

Recognising the need for formulation of a single set of high quality financial reporting standards for Local Bodies which will set out recognition, measurement, presentation and disclosure requirements, the ICAI constituted the Committee on Accounting Standards for Local Bodies (CASLB) in March 2005. The Committee is dealing with the primary responsibility to conceive and suggest areas in which Accounting Standards for Local Bodies (ASLBs) need to be developed, formulate ASLBs, integrate the ASLBs to the extent possible, with the International Public Sector Accounting Standards issued by the International Public Sector Accounting Standards Board, provide implementation guidance on ASLBs, review and revise the ASLBs, assist Local Bodies in adoption of accrual system of accounting, and propagate the ASLBs among the stakeholders in preparation and presentation of financial statements. The ASLBs so formulated are sent to the Technical Committees on Budget and Accounting Standards for Local Bodies for ULBs and PRIs constituted by the Ministry of Urban Development and Ministry of Panchayati Raj respectively, for recommending the same for implementation by the State Governments concerned.

With the continued efforts in this direction, a Status Paper on 'Accounting Reforms in Local Bodies in India and Role Chartered Accountants', has also been issued by the Committee which incorporates the status of adoption of accounting reforms in the Local Bodies in India. This status paper also chalks out the role that Chartered Accountants can play in implementation of the accounting reforms in Local Bodies.

Since its inception, the Committee has issued various publications, the first publication of the Committee was *'Preface to the Accounting Standards for Local Bodies'* which sets out the objectives and operating procedures of the Committee on Accounting Standards for Local Bodies and explains the scope and authority of the Accounting Standards for Local Bodies. So far, the Committee has issued four Accounting Standards for Local Bodies (ASLBs) viz., *'Revenue from Exchange Transactions'*, *'Borrowing Cost'*, *'Property, Plant & Equipment'*, and *'Event After the Reporting Date'*. Formulation of ASLBs on various other subjects is in progress. The Committee has recently brought out the booklet on *'Accrual Accounting for Local Bodies: Elected Representatives and Stakeholders'* which seeks to provide introductory information to the elected representatives and stakeholders about the accrual accounting benefits for the Local Bodies. It brings out the distinguishing features of the two systems of accounting: the traditional cash accounting system and modern accrual accounting system, and the manner in which they impact income, expenses, assets and liabilities of a local body. Some misconceptions about accrual accounting have also been clarified, to reduce the perceived information gap about the system and its use. Hindi version of this booklet has also been published to enhance the usefulness of the same for the elected representatives.

With the continued efforts in this direction, a Status Paper on *'Accounting Reforms in Local Bodies in India and Role Chartered Accountants'*, has also been issued by the Committee which incorporates the status of adoption of accounting reforms in the Local Bodies in India. This status paper also chalks out the role that Chartered Accountants can play in implementation of the accounting reforms in Local Bodies.

Professional Chartered Accountants have a significant role to play in implementing these accounting reforms in the Local Bodies. They can assist in assessment of existing system and identifying requirements including review of legislative framework with reference to existing laws for smooth transition to accrual accounting system, preparation of financial statements for the transition period and training of finance and accounts personnel and training of trainers, etc. Internal Audit, Statutory Audit, and Special Audit of Local Bodies as provided in Model Municipal Law are the other areas where the experience and expertise of Professional Chartered Accountants would be very useful.

Surely, the assistance of accountancy profession and implementation of Accounting Standards for Local Bodies (ASLBs) issued by the ICAI would result in harmonisation of accounting practices of Local Bodies in the country. It would help in adoption of internationally benchmarked accrual accounting system and a transparent financial reporting system in local bodies. ■

Role of Accountancy Profession in Government

In a borderless world where individual economies have merged within the global order, challenges and opportunities for professional accountants have undergone radical changes. Globalisation has accelerated the shift in focus from number crunching to strategic thinking, thus expanding the role of Chartered Accountancy to that of a proactive catalyst in factoring change into the emerging global vision. As corporates and businesses evolve in an environment of enhanced transparency and accountability, accounting professionals have emerged as strategy formulators and facilitators with much broader professional horizons.

(Contributed by Committee on Public Finance and Government Accounting of ICAI. It can be contacted at cpf_ga@icai.org)

The profession has moved much beyond of being an accountant's role to the corporates and has been contributing to the Government and various regulators be it of the financial markets or capital markets and is truly adding value to the process of economic and social development of the country. On the one hand, there is the clarion call for it to get back to the basics and follow the rulebook to the letter whilst on the other, there is an opportunity for developing new skill sets such as International Financial Reporting Standards (IFRS) to prepare financial statements. This would mean a completely different outlook to the world of auditing and accounting. Role of the accounting profession in evolving and lending credibility to financial systems has been very critical and is so recognised worldwide.

Until very recently, the doctrine of accounting has largely been ignored in the discussion of economic development, or at least scoffed at as mere bean-counting with little or no connectivity with the achievement of the government policy agenda. However, with the increased understanding that transparency and accountability are at the core of good governance, the interest in government accounting has surged in recent years. Few years ago, the Government departments in India had very few if any professional accountants amongst its staff. The situation in many budget and treasury offices around the world was not much different. But now the tide is turning: in many Government Departments and ministries the number of professional accountants has grown significantly.

The stage is set for the profession to really assess where it wants to head. This is, possibly one decision which would largely rest on the agencies and users who had placed faith and trust and today believe that chartered accountants have survived their usefulness.

The Chartered Accountancy profession is entrusted with an important public interest mandate. Whether CAs work as accounting professionals, government ministers, university leaders, academics, regulators or standard setters they are fundamentally engaged in the business of 'people'. A key element in protecting the public interest is ensuring that people have accurate and consistent information on which they base their decisions.

Serving the public interest requires to find ways to assist countries in conducting their economic and financial affairs in prudent and transparent ways. ICAI and its members have noticeable contribution in the nation's economic development. ICAI's endeavor to help the Central and State Governments in effective accounting and utilisation of

"Serving the public interest requires to find ways to assist countries in conducting their economic and financial affairs in prudent and transparent ways. ICAI and its members have noticeable contribution in the nation's economic development. ICAI's endeavor to help the Central and State Governments in effective accounting and utilisation of Public Finance by involving Chartered Accountants at various levels has taken shape by the constitution of the Committee on Public Finance & Government Accounting."

Public Finance by involving Chartered Accountants at various levels has taken shape by the constitution of the Committee on Public Finance & Government Accounting.

This Committee has been constituted within the ICAI with the objectives to review, analyse, recommend and suggest measures to the Local, State & Central Governments, PSUs and other organisations in policy assessment, planning and execution in public finance, reforms in government accounting system and maximising public fund's utility to augment and vitalise economic growth for end beneficiaries. Further, it aims to provide training within the Government bodies, to evolve methods which would enable in use of present day information technology in assisting the accounting reform process, collaboration and coordination with Comptroller & Auditor General of India (CAG) and Controller General of Accounts (CGA) to bring improvements in the framework of Government Accounting System. The Committee also strives to undertake capacity building measures for the profession to enable the profession to assist the Government in the process of implementation of Government Accounting and Public Finance reforms thereby suggesting the means and ways which would assist in widening the tax base and in better administration of the revenue collection, improve MIS, budgetary control mechanisms, and enhance accountability and transparency. Thus the Committee on Public Finance is a stepping stone in **Institute's mission of partnering with the Government in Nation's building**.

It has been felt, being vigilant to audit and accounts of the corporate world, Chartered Accountants may equally play a vital role in monitoring and administration of Government accounting and Public Finance resources. This view has also been seconded by different ministries and Government departments keeping in view the increase in the total expenditure of the Central Government which has gone up ten times from around Rs. 95,000 crore in 1989-90 to around Rs. 10,00,000 crore in 2009-10. The most dramatic jump

This Committee (CPF&GA) has been constituted within the ICAI with the objectives to review, analyze, recommend and suggest measures to the Local, State & Central Government, PSUs and other organisations in policy assessment, planning and execution in public finance, Reforms in Government accounting system and maximizing public fund's utility to augment and vitalize economic growth for end beneficiaries.

has been in transfer payments by the Central Government to the rest of the economy that has gone up over fifteen times from approximately Rs. 44,700 crore in 1989-90 to Rs. 6,74,000 crore in 2009-10.

The volume, mix, variety and legal structures employed for undertaking government expenditure have thus undergone a tremendous change and thus, the need of placing the professional accountants within the machinery of Government becomes more vital as they can play a key role in the system of parliamentary financial control, thereby promoting public financial accountability, probity, and transparency.

For the said purpose, the chartered accountants should extend helping hands and provide technical support in fostering economic reforms to the various tiers of the Government as part of social obligation towards the country. The role of accountancy profession in the current scenario of economic reforms can be:

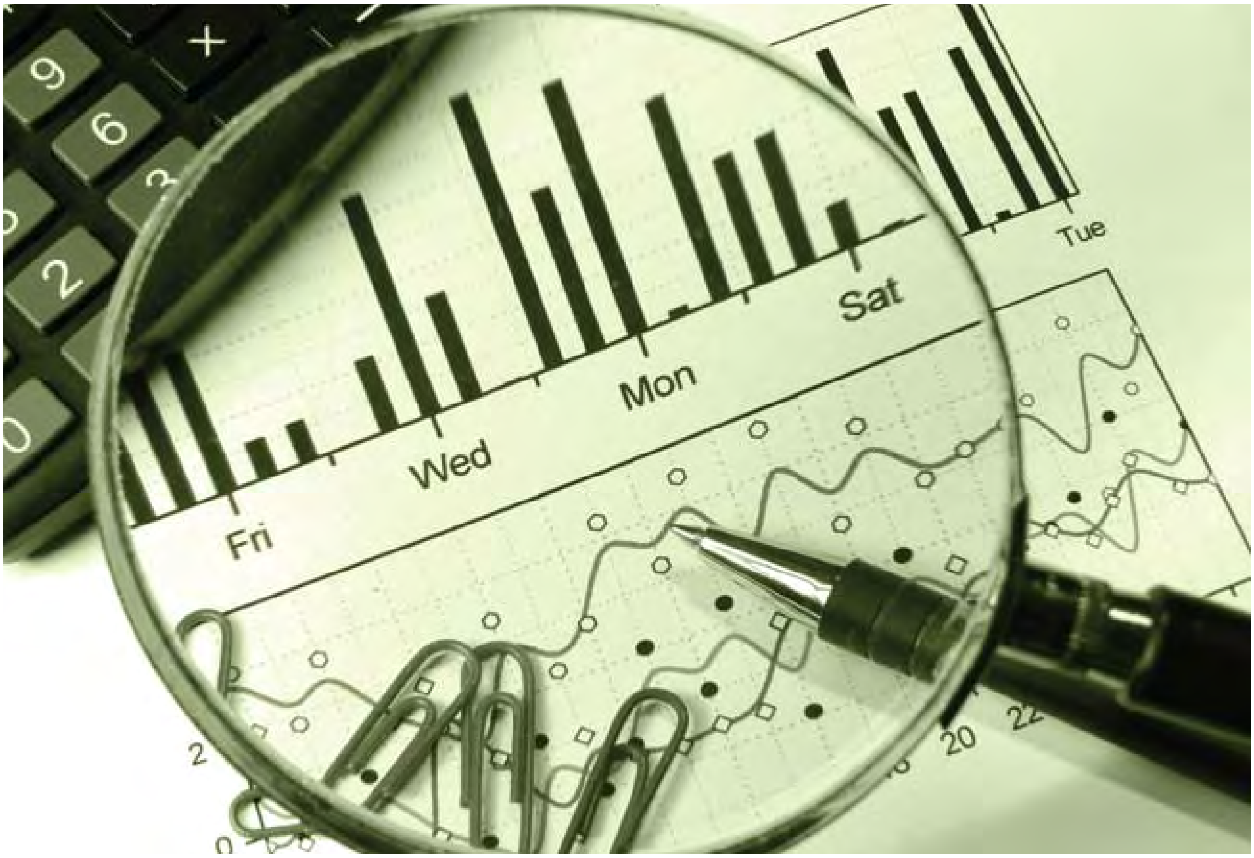
- Preparation of papers on various themes relating to transforming cash basis of accounting to accrual basis, consolidation, expansion and innovation in the fields of auditing and accounting.
- Based on the report of the 13th Finance Commission, providing macro and micro-level assessments, at periodic and timely intervals, of the state of public finances, both at the Central and State level. Further, while the Government of India has been allocating and releasing huge volumes of funds for various developmental programmes (which had also received a significant boost as part of the stimulus package to counter the adverse effects of the global economic downturn on the Indian economy), preparation of detailed reports on the quality of expenditure being incurred at the grassroots level in implementing these programmes. This is particularly so in view of covering not only the Central and State Governments and their agencies but also the Panchayati Raj Institutions in most States.
- Periodic assessments of the implementation of Government flagship programmes in different parts of the country and presenting a report to the said effect so that Government can take mid-course corrective action, in a timely manner, and optimize the use of public money.
- The focus of the Eleventh Five Year Plan has been not only on growth and development, but on inclusive growth, with equity and justice, to ensure that the fruits of development reach backward and vulnerable sections of society. In this direction, role of chartered accountants become important as they can assess how, and to what extent, the key development programmes of the Government are changing the lives of these sections of society.
- Analysing the areas where there are leakages in Government revenue and recommend corrective measures to increase not only the tax but also the non-tax receipts.

It has been felt, being vigilant to audit and accounts of the corporate world, Chartered Accountants may equally play a vital role in monitoring and administration of Government accounting and Public Finance resources. This view has also been seconded by different ministries and Government departments keeping in view the increase in the total expenditure of the Central Government which has gone up ten times from around Rs. 95,000 crore in 1989-90 to around Rs. 10,00,000 crore in 2009-10.

To sum up, the accountancy profession is uniquely qualified to provide the expertise and advice that business and government needs to increase prosperity. The work of the profession is ultimately designed to contribute to the development of financial systems and economies in general, to assist the nation in developing frameworks that support high quality accountancy practices, and to build a profession, nation by nation, accountant by accountant, that places a priority on those core values of integrity, transparency and competency.

The fraternity at large need to engage with government to create the right environment for businesses and people to thrive and must work together to help the nation establish proper infrastructures and reinforce the values that characterise the accountancy profession. Individually, everyone needs to work to the best of their ability to ensure that public confidence in the profession is never in doubt. These are challenging times and we welcome that challenge. ■

Excellence in Financial Reporting - Role of Peer Review



An efficient and effective financial system cannot remain functional without meaningful and reliable financial reporting. The significance of financial reporting is inevitable. It has become essential that the financial statements must reflect the true and fair financial position, performance and any changes that influence economic decisions.

(Contributed by Peer Review Board of ICAI. It can be contacted at peerreview@icai.org)

Financial reporting when disclosed in a sound manner facilitates the identification and utilisation of the most productive use of the resources, thereby enhancing control over the effective utilisation of these resources. Financial statements should be easy to understand, completely reliable and comparable. The role of Accountancy profession takes the lead to achieve excellence in financial reporting. Ethical and legal reporting may be ensured only when the Accountants are completely aware of the control of the information.

The Peer Review Board of the Institute established in year 2002 has been successful endeavour, which has so far been able to achieve its objectives for which it was set up. The Peer Review is a mechanism to proactively pursue, upgrade and maintain the quality standards of Audit profession in India. It aims to maintain and enhance the quality of attestation services.

The main objective of Peer Review is to ensure that in carrying out their attestation service assignments; the members of the Institute (a) comply with the Technical Standards, Ethical Standards and Professional Standards laid down by the Institute and (b) have in place proper systems (including documentation systems) for maintaining the quality of the attestation services they render. Peer review does not seek to redefine the scope and authority of any of the Standards specified by the Council of ICAI but seeks to ensure their implementation both in letter and spirit.

Peer Review is directed towards maintenance as well as enhancement of quality of attestation services and to provide guidance to members to improve their performance and adhere to various statutory and other regulatory requirements. Essentially, through a review of attestation service engagement records, peer review identifies the areas where a practising member may require guidance in improving the quality of his performance and adherence to various requirements as per applicable Standards.

The peer reviewers verify whether the practice unit has policies and procedures to provide reasonable assurance that the reports issued are supported by conclusions reached at each stage of audit and are adequate reference for an effective Financial Reporting.

"The main objective of Peer Review is to ensure that in carrying out their attestation service assignments; the members of the Institute (a) comply with the Technical Standards, Ethical Standards and Professional Standards laid down by the Institute and (b) have in place proper systems (including documentation systems) for maintaining the quality of the attestation services they render.."

The desired quality for achieving excellence in Financial Reporting from the perspective of the Peer Review Board as emphasised and advised to Practicing Units:

- Audit report to contain a clear written expression of opinion on the financial information
- Practicing Unit should have policies and procedures to provide reasonable assurance that the reports issued are supported by the conclusions reached at each stage of audit.
- Form and content of report comply with expectations and conclusions are adequately referenced.
- Practice Units should comply with reporting standards prescribed under the Companies Act, 1956 or other applicable laws, Auditing and Assurance Standards and other relevant reporting guidance issued by the ICAI.
- Compliance with ICAI's Statement on Qualifications in Auditor's Report together with compliance of relevant statutory/ regulatory requirements and adequate disclosure of all material matters relevant to proper presentation, subject to statutory requirements, where applicable.
- Final report to be submitted to the Board should be accompanied by an Annexure, together with copy of Preliminary Report, if any, issued and Practice Unit's response thereto.

Peer Review intends to give an opportunity for Quality Enhancement and also a process to achieve global standards of excellence.

Statistics in Respect of the Peer Review Conducted Stage-wise

Position regarding selection of Practice Unit

Selection of Practice Unit	No. of PU selected	% of selection	Peer Review Completed/Under Progress
Selection under Stage 1 **(SI)**	2691	25.95%	2213
Selection under Stage 2 **(SII)**	4994	48.32%	4058
Selection under Stage 3 **(SIII)**	2668	25.73%	1874
Grand Total as on May 31, 2010	**10353**	**100%**	**8145**

Coverage of Practice Unit (year wise)	No. of PU selected	Selection of Practice Unit (Phase wise)	Stage I	Stage II	Stage III
2003-2005	2016	Phase 1	223	1509	2668
2005-2007	3798	Phase 2	284	1269	-
2007-2008	1647	Phase 3	460	1084	-
2008-2009	1680	Phase 4	729	962	-
2009-2010	1106	Phase 5	995	170	-
1.04.2010 onwards(Suo moto)	106				
Grand Total as on May 31, 2010	**10353**	**Total**	**2691**	**4994**	**2668**

Promoting the Spirit of Excellence in Financial Reporting Through Research

Accounting has often been described as the "language of business" as it is the medium of communicating financial information of any entity to the various interested users. Financial statements are the tools to convey the information about that entity to the interested users. Earlier the business unit was of a small size, mainly managed by the owners themselves. Now with business being managed mostly by independent and artificial entities like body corporates there is a total separation in the management and ownership of the respective entities. This has both pros and cons. On one hand, the advent of corporate culture with its emphasis on corporate discipline, professionals managing their areas of concern, etc., has proved immensely beneficial for the development of the organisation, but on the other hand, existence of an expectation gap related to relevant and timely information to the interested users has raised concerns and led to various pronouncements from the Government as well as other regulators to bridge the gap and introduce effective mechanism for communication of information to the interested users.

(Contributed by Research Committee of ICAI. It can be reached at research@icai.org)

The expectation from the profession has grown voluminously and latest developments like Enron, Barclays', Lehmann Brothers, etc. have only raised them further with accountants now being regarded as watchdogs of public trust. Closer home, Satyam has given rise to apprehensions in the minds of public which needs to be reassured. Excellence in financial reporting is not merely a slogan, it is a baton of public trust which is to be upheld by the professionals like chartered accountants in view of the esteem with which the profession is regarded. The Institute of Chartered Accountants of India is the regulator of the accountancy profession in India and fully comprehends the fundamental importance of public trust in accounting profession and the need to work continuously to maintain that trust. Indeed, substantial efforts have been made over the years to provide business and capital markets with high quality accounting and auditing standards. As time and again demonstrated, by its action, the Institute through its various Committees, has been proactive in its contribution and will continue to work on behalf of the accounting profession to raise standards and to highlight areas of concern.

We all are aware of the fact that research is the foundation on which any profession grows and prospers and accountancy is no exception. The role of research in the development of a profession needs to be specially emphasised in view of latest developments taking place all over the world. Across the world, research is being undertaken to develop various standards of financial reporting, address industry specific accounting issues, revise existing pronouncements with a view to make them more disclosure oriented, etc. Realising the paramount importance of research in the development of profession, ICAI constituted the Research Committee in the year 1955 itself. In fact, it is one of the oldest Committees to have been formed by the Council of the Institute. The primary functions performed by the Research Committee towards spirit of disclosure and transparency are two- folds as explained below:

1. Formulation of various Research Publications for the guidance of members and others concerned; and
2. Celebrating the spirit of excellence and transparency in disclosure of financial information by annually holding the `ICAI Awards for Excellence in Financial Reporting'

Formulation of various Research Publications

The Research Committee, with its emphasis on the role of accountancy professionals in India, brings out various pronouncements like guidance notes, technical guides, monologues, studies etc. to provide guidance to members and others concerned in the application of Indian GAAPs while preparing and presenting financial statements as well as auditing them. Most of the readers are aware that Accounting Standards are formulated with the primary purpose to bring uniformity in the financial statements of various entities so that these are comparable with one another as well as from one period to another. At times, owing to peculiarities associated with a specific industry, different interpretations may be adopted by various entities while preparing their financial statements. In order to streamline such peculiarities and to bring about uniformity, the Research Committee provides industry specific guidance for uniform application of Indian Accounting GAAPs. "Guidance Note on Accounting by Dot-Com Companies", "Guidance Note on Accounting for Oil and Gas Producing Activities", "Technical Guide on Accounting for SEZ Development Activities", "Technical Guide on Accounting for Micro-finance Institutions", "Monograph on Accounting for Agricultural Operations", "Study on Accounting in Power Sector" are some of the many such publications by the Research Committee. The spirit of disclosure and transparency in the process of financial reporting is paramount and it is always an endeavor of Research Committee to provide guidance and address complex accounting issues in any industry. 'Checklist for Disclosures under Accounting Standards' and 'Study on Methods in Special Audits and Investigations', etc., reflect the efforts of the Research Committee of ICAI in the direction. Every year, research publications are formulated to provide uniform guidance in the application of accounting principles and policies. This not only helps various professionals like chartered accountants, but also others involved in the preparation and presentation of financial accounts and their reporting.

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Currently, the Committee has undertaken research projects in some of the sunrise areas of the economy which impact the development of the economy of the country in a big way. Areas like entertainment industry, sports sector, retail business, etc. are all upcoming sectors. Entertainment industry is primarily a talent intensive industry which engages a lot of people across its various streams with its focus on wholesome entertainment and social causes. With the advent of satellite channels, there is a flood of television shows- entertainment programmes, talent based reality shows, etc. This, coupled with the fact that corporates have now entered film and television production, the need for guidance in application of accounting principles and policies in this field of entertainment was acutely being felt and will be adequately addressed by the Committee. In retail sector also, for quite sometime now, requests have been coming from the industry for guidance in application of relevant Indian GAAPs and uniform accounting policies in the preparation and presentation of financial statements of this sector. Sports is a field where guidance is required to account for peculiar accounting issues like auction of players like commodities in the IPL format, brand valuation of IPL teams, etc. All this will be tried to be addressed in the above stated flagship projects recently undertaken.

Celebrating the spirit of excellence and transparency in disclosure of financial information by annually holding the `ICAI Awards for Excellence in Financial Reporting'

A difficult challenge facing financial reporting today is the desire for more international harmony in accounting standards. As businesses in the need of capital and investors seeking opportunities, have broadened their horizons beyond national markets, the call for more common standards to encourage efficient cross-border capital flows has been growing.

The Institute, being the premier accounting body in the country as well as the national standard setter is entrusted with the responsibility of laying down sound accounting practices and principles to be followed by the members of the Institute as well as all others concerned. The Institute has issued various Accounting Standards as well as revised certain previously issued Accounting Standards to bring them in tandem with the latest advancements in the field of accounting the world over. These Accounting Standards issued by the Institute have since been notified under the Companies (Accounting Standards) Rules, 2006, and have become mandatory to be followed by the entities governed under those statutes in the preparation and presentation of their financial statements. Currently, the Institute is actively involved in the project of bringing out new Accounting Standards corresponding to the International Financial Reporting Standards (IFRSs) to make the country IFRS compliant from the year 2011 onwards.

However, it is a universal truth that merely laying down of standards and mere pronouncements cannot bring about the desired improvements in the published accounts of entities nor make them present their financial information in a better manner. The Institute of Chartered Accountants of India, being the foremost accounting body of the country, is dedicated to the noble cause of improving and strengthening the financial reporting practices prevalent in the country. It was realised long ago that to achieve this in real terms, it is essential that the enterprises, which are complying with the Accounting Standards and other regulatory requirements in letter and spirit, be given proper recognition and encouragement. With this objective in view, a 'Competition for the Best Presented Accounts' was started way back in the year 1958. However, in keeping pace with the changes in the economic and financial setting of the country and the growing stress on the reporting of financial results, from

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the year 2002-03, this competition was renamed as 'ICAI Awards for Excellence in Financial Reporting'. This competition held annually by the Research Committee is a prestigious competition in the area of financial reporting which recognises the enterprises that have achieved excellence in the preparation and presentation of financial information. It is a prestigious forum which provides the companies, as well as the persons involved in the preparation and presentation of annual financial statements of any organisation, an opportunity to know how the financial reporting is being done by their peers in the same industry and follow the best virtues of disclosure and transparency in financial reporting. These Awards establish benchmarks against which aspiring enterprises can measure their own performance and hope that they will continue to strive for excellence in the presentation of their annual reports in the coming years also.

This competition, held in various categories based on the nature of business carried on by an enterprise, is organised with the prime objective of encouraging transparency and accountability in the financial statements. As most of us are well aware that during the accounting cycle, the accountants of an entity make a record of all its financial dealings and operations and at the end of that period, making use of the gathered information, financial statements of an entity, viz. Balance Sheet, Statement of Profit and Loss and Cash Flow Statement are prepared. In most of the cases, the laws governing the entity as well as the accounting standards and other relevant pronouncements lay down clearly the form, presentation, disclosures as well as other requirements which are to be met in the preparation and presentation of financial statements. These awards are presented to those entities that have not only followed laid down norms and mandatory requirements in the presentation of their annual reports but have gone an extra mile to better present their annual reports from those of their peers. It is in essence a competition to enhance the competitive spirit among the participants so that ultimately there is an all round improvement in the presentation of financial information of all concerned. The winners of the competition are expected to set the standards in financial reporting for being followed and emulated by others. The winning entries become eligible to compete for the South Asian Federation of Accountants (SAFA) `Best Presented Accounts Awards'. Many Indian entries invariably figure each year in the above mentioned awards.

Over the years, the Awards competitions have contributed significantly to raising the standards of annual reports in the country, thereby evoking investor confidence and promoting a fair and open climate for the business community. ■

Role of Indian Accountancy Profession in Reshaping Corporate Laws and Governance

"Trust" is the major foundation upon which the corporate edifice is built and the Board as 'wealth creators and maximisers' has its moral and legal responsibility to inform continually its actions and reasons to the stakeholders at large. To this extent, the role and significance of accounting profession is of paramount significance as it serves the nerve centric in facilitating the communication of such disclosures through the Board. Transparency is now the litmus test in financial disclosures and the spectrum of information to stakeholders has to be 'true and fair'. In this arena, there is lot of expectation on the role and responsibility of the auditors where he should be seen to have acted due diligently and independently.

(Contributed by Corporate Laws and Corporate Governance Committee of ICAI. It can be contacted at corpgov@icai.in or corporatelaws@icai.in)

The epitome of 'Excellence, Independence and Integrity' is the brand image of an Indian Chartered Accountant towards which he is expected to serve the society at large. The role and responsibilities of the Board of Directors and the auditors have sufficiently been codified by the law and to govern them in all fairness and strictness there are enough checks and balances. In India, the affairs of a company and conduct of an auditor is mainly regulated by the Companies Act, 1956 and other laws.

There are several initiatives the accounting profession in India as a partner in nation building has taken in dialogue with the Government and notable among them are the need for significant changes in the company law including rescheduling Schedule VI, & XIV, ensuring independence of directors and auditors, remuneration of independent directors depending on his role and responsibilities and keeping good companies on register of companies.

Redefining Company Law in India: The Company law prescribes that financial statements of a company shall give a 'true and fair' view of the state of affairs of the company as at the end of the financial year and it shall be in the form set out in Schedule VI. The company law in India has been amended many times since 1956 and keeping in view the changing global business scenario, a new comprehensive, compact and clear law is on the anvil. The accounting profession has immensely contributed its professional and intellectual inputs to the Government on every occasion to reshape and fine-tune the law. One significant contribution that the profession has embarked and contributed is towards the need for reformatting the Schedule VI & XIV. Any financial reader should very well understand that all preparation of financial statements have to be in conformity with the Accounting Standards which are specified by the Institute of Chartered Accountants of India and prescribed by the Government in consultation with the National Advisory Committee on Accounting Standards established under section 210A of the Companies Act, 1956. The successive amendments in the Companies Act, 1956, particularly in the reporting requirements in section 227 reaffirms the faith of the government in the professional chartered accountants. It is beyond doubt that the issuance of MAOCARO, 1975 (new CARO, 2003) extended the scope and responsibilities of the auditors' and even shifted the focus from pure financial aspects of financial transactions to comments on propriety aspects and the efficiency with which the affairs are being managed. Today, one can say with great pride that reporting by auditor in terms of CARO, 2003 has no parallel with any country in the world. In fact, such reporting requirements also prove to a considerable extent the resolution and resilience of Indian corporate sector vis-à-vis corporate collapses in the Western world.

Rationalising and Simplification of Schedule VI & XIV: The Institute of Chartered Accountants of India through its Corporate Laws and Corporate Governance Committee has revised the format and contents of Schedule VI of the Companies Act, 1956 at the behest of the Ministry of Corporate Affairs, to make it investor-friendly, appreciating the best global practices as well as the emerging Indian perspectives. The proposed Schedule VI is IFRS compliant as well as non-IFRS compliant for companies not required to follow the convergence. The Institute has submitted its detailed views and suggestions to the Ministry of Corporate Affairs and also made a presentation before the Hon'ble Parliamentary Standing Committee on Finance for the overall simplification of the Company Law in India and to specifically make the provisions relating to audit and accounts being more clear and transparent in the light of the present requirement of the industry, profession and various stakeholders.

Also there is a need for revisiting the Schedule XIV dealing with the rates of depreciation when business is fast changing and immediate requirement of providing

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"The Corporate Laws and Corporate Governance Committee of ICAI is critically taking into account all the aspects as covered in the recent Corporate Governance Voluntary Guidelines 2009 brought out by the Ministry of Corporate Affairs, to provide the country a framework to achieve highest standards of governance. It is also jointly endeavouring with the Indian Institute of Corporate Affairs of the MCA on its various programmes and also participated in the Forum on Asian Insolvency Reforms (2010) organised on 8th & 9th April, 2010 at New Delhi."

depreciation on assets of companies which should be in line with the best global practices.

Independence of Directors: Board being independent is not on the number of directors that musters but the concerned director that matters the most. Being independent is a mind set-up and in being so the independent director should neither be a contestant or a dissident in decision-making process but facilitates in making the Board to think, rethink and apply its thought process judiciously in the overall interest of the company and its shareholders. On the appointment, remuneration, role and responsibilities of independent directors, laws still require clarity so as to attract the best talents. The remuneration of independent director should be commensurate with the duties and responsibilities that he is taking and more important to the liabilities to which he is exposed. The ICAI has deliberated with the SEBI and MCA on various focal issues governing independence of directors and to flagship its pro-active imitative of enabling its own members, various chain workshops on 'Becoming and Being Independent Director' were and being conducted all across the country. Literary resources the subject have also been published.

Independent Auditor: Towards independent auditor, the Institute time and again has been interfacing and insisting with the Government, that the process of removal of auditor by the company has to be made more stringent and should not be left to the whims and fancies. It was suggested to provide for mandatory recommendation of the audit committee for removal of auditor as a pre-requisite to move a special resolution for removal of auditor before the expiry of their term. Also the Institute should be easily enabled to follow its course of actions on the erring members in violating its ethics and code of conduct and there should be enough synchronization between ICAI and other regulatory agencies.

Good Companies Make Good Corporate India: There are around 8 lacs companies in India and its regulation by the Ministry is a formidable task. Since the number of defunct companies remains on the register of companies, their presence is not in sync with corporate culture and therefore there should be easy exit system for such companies. It is worthwhile mentioning here that the Institute participated in bringing out the schemes by the MCA earlier namely, the Company Law Settlement Scheme and Easy Exit Scheme by which a Chartered Accountant in practice has to certify that such companies have complied with the procedure. The participation of the profession in ensuring success of earlier scheme has again reinforced the Government faith in the accounting profession in bringing out similar schemes in the current year.

Good Governance: Corporate governance is an important tool to ensure corporate regulatory compliance. Regulatory authorities such as Securities and Exchange Board of India provide for various transparency and disclosure requirements to make sure of fair play in the market. SEBI (Issue of Capital and Disclosures Requirements) Regulations, 2009 facilitate investors to take an informed decision for making investment in a public issue. It also provides that a company is required to comply with the disclosure and accounting norms specified from time to time. The purpose of these disclosures is to bring about transparency in the transactions and assist the Regulator to effec¬tively monitor the transactions in the market. Further to monitor the post-issue, companies are required to file Certification of Compliance of conditions stipulated in Clause 49 of the listing agreement which is finally certified by the statutory auditors. The profession believes that internal auditor and statutory auditor have to be separate which is critical to the good governance of the company.

The Corporate Laws and Corporate Governance Committee of ICAI is critically taking into account all the aspects as covered in the recent Corporate Governance Voluntary Guidelines 2009 brought out by the Ministry of Corporate Affairs, to provide the country a framework to achieve highest standards of governance. It is also jointly endeavouring with the Indian Institute of Corporate Affairs of the MCA on its various programmes and also participated in the Forum on Asian Insolvency Reforms (2010) organised on 8th & 9th April, 2010 at New Delhi.

Indeed, all these efforts of the Committee of ICAI would truly benefit the accounting professionals towards strengthening Corporate Governance practices which in turn will have a positive impact in ensuring proper disclosures and transparency and thereby leading towards excellence in financial reporting. ■

Promoting Professional Excellence and Integrity Through Ethical Behaviour

Every Society has some generally accepted ethical standards, which apply to its people in all walks of life. However, society places higher echelon of expectation on professionals, as it needs to have confidence in the quality of the services provided by them. Ethics in the profession of accountancy are invaluable to the members of the profession and to those who rely on their services. The stakeholders are many - clients, credit grantors, governments, taxation authorities, employees, investors, the business and financial community and the general public.

(Contributed by Ethical Standards Board of ICAI. It can be contacted at esb@icai.org)

ICAI: Ensuring Ethical Compliance

The Chartered Accountants Act was passed in 1949 with a view to regulate the profession of accountancy in India. The Institute of Chartered Accountants of India was also established in the same year for administration of the Act and replaced the Accountancy Board of India formed in 1932 to advise the Governor General. The profession is regulated at the Central level, and in the same manner and to the same extent all over the country. Accounting, auditing and ethical standards are formulated and monitored for compliance under the provisions of the aforesaid Act by the ICAI. The Act provides for adequate representation from the Government of India in the Council of the Institute and in the Disciplinary Committee of the ICAI.

The Chartered Accountants Act, 1949 and the Schedules appended to the Act set out the permissible norms for the members of the profession. Section 22 of the Act defines and describes what constitutes `professional misconduct'. The two Schedules spell in detail the various acts and omissions entailing professional /other misconduct, which are dealt with punishment in accordance with Chapter-V of the Act. The two Schedules are distinguished on the basis of gravity of misconduct and quantum of punishment for the misconduct, the Second Schedule pertaining to comparably more grave misconduct and higher punishment. The Disciplinary mechanism of the Institute is provided in the Act, and thus with the sanction of law behind, it has effectively been followed since the enactment of the Act without any difficulty.

As regards quality control, the Institute has the responsibility under Section 15 of the Act to ensure quality of standards of performance of its members.

Ethical Standards Committee

For the formulation of ethical standards for members in response to changing conditions and environment, the Council constituted Ethical Standards Committee at its 74th Meeting held in December, 1975. The Committee was later also given the responsibility of evolving ethical standards, providing guidelines and to generally oversee that the ethical standards were observed by the members. The Committee was making a constant study about the changing needs of the members and recommending changes in the Code of Conduct. The endeavor was to see that some of the practical difficulties found by the members in rendering professional services were resolved. The nomenclature of the Committee was later changed to Committee on Ethical Standards and Unjustified Removal of Auditors (CESURA), whereafter it would be a fact-finding body and shall also be entitled to consider cases of unjustified removal of Auditors in Government Companies, Public Sector Banks, etc. The name of the Committee was again changed by the Council in March, 2005 from CESURA to CES i.e. Committee on Ethical Standards, and then to Ethical Standards Board (ESB) in December, 2008.

Ethical Standards Board

Ethical Standards Board is today engaged in formulation of principles of Ethics for its members that are stringent enough to guarantee the confidence building in the public. The mission of the Board is *"To work towards evolving a dynamic and contemporary Code of Ethics and ethical behaviour for members while retaining the long cherished ideals of `excellence, independence, integrity' as also to protect the dignity and interests of the members".*

Proactive Approach - Taking Lead

During its nearly six decades of existence, ICAI has achieved recognition as a premier accounting body globally. Some of the areas where ICAI has taken lead ahead of International standards are:-

(1) ICAI has prohibited the members in practice to write the books of accounts of their auditee clients whereas IFAC Code of Ethics contains situations where a member may provide book-keeping services.

(2) ICAI Code of Ethics provides that a statutory auditor of a company cannot also be its internal auditor whereas IFAC Code of Ethics contains situations where a member may provide internal audit services.

(3) Contingent fees is not allowed by ICAI whereas the provisions for contingent fees on non-audit services as contained under the IFAC Code of Ethics are elaborative.

(4) Among self-regulatory measures of ICAI where it is ahead of IFAC are Definition of Management Consultancy and other services, Recommended scale of fees chargeable for the work done by the members of the ICAI, Ceiling of Statutory Audit Assignments, Ceiling of Tax Audit Assignments, Guidelines for Application for empanelment for allotment of audit and other professional work & Website Guidelines.

Code of Conduct

Like elsewhere in the world, in India too it was needed to have a vigilant system of ethics for the profession. This need has been fulfilled by the *"Code of Conduct"*, which is essentially a set of professional ethical standards regulating the relationship of Chartered Accountants with all others. The Council brought the first edition of the *'Code of Conduct'* in November, 1963, which included not only the provisions of the Chartered Accountants Act but also the interpretation of the Council, various High Courts and the Supreme Court.

The *'Code of Conduct'*, was later called as *'Code of Ethics'* for the first time in its ninth edition in 2001. In its 2009 edition, the IFAC *Code of Ethics for professional accountants* was incorporated in our *Code of Ethics* subject to some variances, wherever required, to make it compatible with Indian laws. The adoption of IFAC Code is a step towards compliance of ICAI's membership obligations of IFAC. The ICAI *Code of Ethics* has two parts: Part-A, based on IFAC *Code of Ethics for Professional Accountants*, which is principle based; and Part-B, based on the Chartered Accountants Act,1949, which is rule based. The two parts are not water tight compartments, and represent a unique blend of ethics and law, taking conscious note of the requirements of ethics for members for maintaining a level of self-discipline that goes beyond the requirements of merely the compliance of laws and regulations. The Code is revised as frequently as necessary to tune with the requirements of the present day.

The has also issued some other publications such as 'FAQ on Ethical Issues', *'Guidance Note on Independence of Auditors'* and *'Guidance Note on Revision of the Audit Report'* , which are also reviewed and revised from time to time.

Transparency : Need of the Hour

The professional ethics requires to maintain the righteous conduct in all circumstances, as is expected of a professional, for the specialist knowledge and skill he has attained. In the present day scenario, it is imperative for him to let the public in general believe that righteous conduct is being maintained by him, which is a call of transparency and openness. One can defend himself against accusations of malpractice, whatsoever, when he can show that he has behaved strictly in an ethical manner in compliance with the professional standards. One of the ways of ensuring this is maintaining proper documentation, which helps in defending one's actions and makes a person's professional actions "transparent" or easily assessable. The ICAI *Code of Ethics* provides to imbibe the concept of transparency e.g. the Section 290.27 appearing at page 37 may be noted:-

> *290.27 When threats to independence that are not clearly insignificant are identified, and the firm decides to accept or continue the assurance engagement, the decision should be documented. The documentation should include a description of the threats identified and the safeguards applied to eliminate or reduce the threats to an acceptable level.*

The highest standards maintained by the Institute and need to maintain the same can be summarised in the following words of Dr. Manmohan Singh, Hon'ble Pime Minister of India (while delivering inaugural speech on 1st July, 2008 at our Diamond Jubilee Inaugural Function):

> *"I commend the Institute's commitment to the convergence of accounting, auditing and ethical standards with international best practices and improving corporate governance. I urge you to continue to benchmark yourselves against the best available global practices. We cannot be satisfied with the chalta-hai attitude if we have to satisfy the ambitions of our growing work-force for a fast expanding economy and a polity with tremendous opportunities on the horizon."*■

Accountancy Profession is One of the Most Important Stakeholders in Economic Architecture: Ashok Chawla

The Hon'ble Finance Secretary Government of India Mr. Ashok Chawla addressed the Council of the Institute of Chartered Accountants of India on 18th June 2010 on which occasion he shared his vision, experience and government outlook on various issues of interest to the profession of accountancy and the society at large. Following are the excerpts of his address:

"The profession that you belong to, I think, is one of the most important stakeholders in business, industry, finance in the entire economic architecture, whether it is at the corporate level, whether it is at the level of a country, whether at the level of the entire world. It was so, decades ago, much more relevant, much more pertinent in today's integrated worldwide business. What happens at one place immediately has a repercussion at the various sectors in other places of the world. Your institute is also unique. It is a statutory body also a self-regulating organisation. It is not just a body of the profession, not just the body of the member who practice this profession, this is also a body to set standards as mentioned by President, also looks at best practices and if something goes wrong how it has to be disciplined. When the President mentioned 1 lakh 65 thousand members and 6 lakh students and this pool of students may be your own friends and brothers. They are going to join the profession. They are the CA for the companies and the nation tomorrow. That is another very important role which the Institute plays. So it is a very unique body that you are all part of and sit today on the council. You are responsible not only for the professional growth and standard but are also responsible for the next generation of human resources which will enter into this industry. You are, therefore, responsible for the way the business and this entire profession is going to look like in the next 50 years. When you sit on the Council, I don't have to tell you that this is not just a great honour and privilege for you, it is also the great responsibility that you discharge to the institute, to the world of business and to the country.

Very briefly if you look at what has been happening in the Indian economy, and many of you have seen it over the last few decades the process of evaluation where economy has moved from the 60s-70s. To start with 80s initial phase of liberalisation started. 1991 Reform Process was set in motion and we, therefore, have a situation which has built up over the last twenty years from 1991 to today where the private business, private corporate sector has a larger role then it had previously. That is the way the system has moved. Private capital formation has been one of the major drivers of growth in the economy.

The GDP has been 9 per cent during the last 4 years or so. There has been a little moderation in the growth. In line with what is happening to achieve higher growth path, it is expected to be 8 ½ per cent in the current year. In other words, the economy has to go a long way, it is a long story, the impulses are hard; the second broad dimension of the process of economic growth has been the important role which the services sector is playing. Generally you have the agriculture sector, manufacturing sector and services sector or the tertiary sector. All economy has to go through, as text book of economy shows, agriculture sector meets and goes through manufacturing sector and manufacturing sector meets and goes through the services sector and that is the sign of process of economic development. That happened very fast in the last few years in this country. Today the Services sector covering a wide range including services like financial services, now contributing to 5 to 7 per cent of India's GDP. It is close to 60 per cent coming from the services sector; manufacturing about 25/26 per cent and the balance is coming from agriculture sector which is very small. The contribution to the GDP is coming very substantially from the manufacturing sector. I am sure the profession of Chartered Accountancy is also helping this process and responding. There is the real economy, the economy where

we actually do, we actually produce, the real economy has to get adequate support from the financial sector. That is the third pillar of the growth story.

Starting from industrial revolution till today, that is what clearly in evidence in the story of the changing India. That the financial sector has been diversifying, has been growing from the Public Sector Companies to Private Sector bodies and then largely to NBFC breaking all kinds of financial barriers. The whole operative of the financial sector has to keep moving very fast to support the rural sector which is the sector to produce and deliver. That is broadly the story which should happen in any emerging economy, that is the story which has happened in India. We are all part of it and are witness of it.

So far as your Institute is concerned, I am not here to give you any lecture and I am sure these are issues you keep debating. But the basic requirements, this is something which you keep discussing in the interest of your profession. How do you keep pace or stay ahead of what is the requirement from the profession. Profession works through this as a self-regulatory body. One is where your numbers which you have, whether these are adequate to meet ever growing concerns of the business, industry, partnerships, LLPs and all kinds of things. That is one issue where in terms of actual numbers, you are able to fulfill the needs or there are issues and you are not, how do you respond to that. Of course the idea certainly cannot be that the standard and quality cannot be diluted. One is the requirement and the supply, responsibility the profession has been able to keep it.

"The contribution to the GDP is coming very substantially from the manufacturing sector. I am sure the profession of Chartered Accountancy is also helping this process and responding. There is the real economy, the economy where we actually do, we actually produce, the real economy has to get adequate support from the financial sector. That is the third pillar of the growth story."

Second is what is it that you can learn from the best practices around you internationally, what is happening in other countries in terms of accounting standards, in terms of process, in terms of profession conducting itself. That is relevant for any services sector or services industry, whether legal profession, teaching profession, profession of CAs. What is it that the world needs, will expect from you in the next 5-10 years. Are you capable of responding to it, whether you have infrastructure, whether you have capability of upgrading your human resources that you have. That is the second thing.

The third thing is the Standards with the issue of business needs now getting very vast internationally. Companies will need to respond to that if they are to do business, if they are to borrow and lend and buy equipment. They will have to show their accounts. People have to understand. That is why the convergence, of course not for the sake of convergence. I know that is difficult. Eventually one has to move towards convergence with international standards. Companies will have to do it in bulk. These are three or four areas, I am sure, you would be interpreting on. Certainly, I think these are very important issues.

I am not going into the area of Discipline. The MCA is adequately seized of that. There is no new activity which I have no doubt which you are keeping yourself abreast of it. These are very important points. They are work-in-progress, the Direct Taxes Code, Service Tax. The whole regime of direct and indirect taxes should undergo a paradigm change, that is what is being attempted. The whole architecture is widely acceptable and the process of consolidation is equally important. The Direct Tax Code, the Revised Draft Code is once again in public domain and a little time is provided for public comment. It is reaching the stage of finalisation by Parliament.

The attempt is to bring it altogether and make it converge as much as possible. I know there are political difficulties. I am sure you will follow this whole process but there are substantial issues in terms of rates, etc. The attempt is to bring it into effect from April 2011. Once, these things happen, I think the entire process of business and taxation and all that goes will change substantially. That will be major milestone and certainly impact the area of finance, business and accountancy.

Lastly, the issue which you have mentioned about appointment of Auditors. I thought the whole idea was to give flexibility to banks than RBI deciding. We heard from a large number of people and from your institute, I think. I take your point that, as a good practice, it is better not to allow too much play of the account which may be detrimental to the accounting and transparent practices and we will take a look at that. But, I think, since the system has started, may be two years ago, so we will take a call on it in the near future in terms of the appointment of the central and branch auditors. With these words, let me thank you very much." ■

CIRCULARS/NOTIFICATIONS

DIRECT TAXES

Circulars

1. Circular No. 4 dated 18.05.2010

Clarification regarding widening of existing road – definition of a new infrastructure facility

Section 80-IA(4)(i) provides for a deduction to an undertaking engaged in developing, or operating and maintaining, or developing, operating and maintaining any infrastructure facility subject to satisfaction of the conditions laid down therein. The Explanation to section 80-IA(4)(i) states that for the purpose of this clause, infrastructure facility means inter alia:-

(a) "a road including toll road, a bridge or a rail system;

(b) a highway project including housing or other activities being an integral part of the highway project;"

A clarification has been given by the Board vide this circular to the effect that widening of an existing road by constructing additional lanes as a part of a highway project by an undertaking would be regarded as a new infrastructure facility for the purpose of Section 80-IA(4)(i). However, simply relaying of an existing road would not be classifiable as a new infrastructure facility for this purpose.

The complete text of the said circular can be downloaded from the link below:

http://law.incometaxindia.gov.in/DIT/File_opener.aspx?page=CIR&schT=&csId=b5ecf6f8-c111-48ab-ac3b-69f737bd1296&sch=&title=Taxmann - Direct Tax Laws

Notifications

1. Notification No. 37 & 38/2010 dated 21.05.2010

Extension of sunset clause for tax holiday under section 80-IA for industrial parks

Section 80-IA(4)(iii) provides for deduction in respect of any undertaking which develops, develops and operates or maintains and operates an industrial park notified by the Central Government on or before 31.03.2009.

The Finance (No. 2) Act, 2009 has extended the time limit by two years i.e. the deduction would now be available in respect of such industrial parks notified by the Central Government on or before 31.03.2011.

The CBDT has, vide notification No. 38 dated 21.05.2010, amended sub-rule (1) of Rule 18C providing for eligibility of industrial parks for benefits under section 80-IA(4)(iii). Accordingly, sub-rule (1) of Rule 18C now provides that the undertaking should begin to develop, develop and operate or maintain and operate an industrial park any time during the period from 1.04.2006 and 31.03.2011.

Correspondingly, the CBDT has, vide notification No. 37 dated 21.05.2010, amended the Industrial Park Scheme 2008 to be called as Industrial Park (Amendment) Scheme, 2010 which shall come into force on the date of its publication in the Official Gazette.

The complete text of the said notifications can be downloaded from the link below:

http://law.incometaxindia.gov.in/DIT/Notifications.aspx

2. Notification No. 41/2010 dated 31-05-2010

New rules relating to TDS and TCS

In exercise of the powers conferred by section 295 of the Income-tax Act, 1961, the Central Board of Direct Taxes, has, through the Income-tax (6th Amendment) Rules, 2010 substituted Rules 30, 31, 31A and 31AA with new Rules 30, 31, 31A and 31AA. Further, Rule 37A has been omitted.

Also, Rules 37CA and 37D have been substituted by new Rules 37CA and 37D relating to time and mode of payment of TCS and the certificate for collection of tax at source. Further, Form Nos. 16, 16A, 27D were also substituted and new Form No. 24G has been inserted.

These amendments shall come into force on 1st April, 2010.

The complete text of the said notification can be downloaded from the link below:

http://law.incometaxindia.gov.in/DIT/File_opener.aspx?page=NOTF&schT=&csId=35524106-1528-4ba1-b153-81ea0f165a41&NtN=&yr=ALL&sec=&sch=&title=Taxmann - Direct Tax Laws

Press Release dated 11.06.2010

Increase in exemption limit under section 10(10)(iii) in respect of Gratuity

The Central Board of Direct Taxes has approved notification of ten lakh rupees as the maximum amount of gratuity entitled to exemption under section 10(10)(iii) of the Income-tax Act, 1961.

The notification will be applicable to employees who retire, or become incapacitated before retirement, or expire, or whose services are terminated, on or after the 24th May 2010.

The complete text of the said press release can be downloaded from the link below:

http://www.incometaxindia.gov.in/archive/PressRelease_GratuityTaxExemption_06142010.pdf

(Matter on Direct Taxes has been contributed by the Direct Taxes Committee of the ICAI)

INDIRECT TAXES

A.EXCISE

I Notifications:-

1. Notification No. 20/2010-CE (N.T.) dated 18.05.2010 and Notification No. 21/2010-CE (N.T.) dated 18.05.2010 have amended, with effect from 01.06.2010, the Central Excise Rules, 2002 and the CENVAT Credit Rules, 2004 to provide that the following statements/returns shall be filed electronically if the manufacturer of final products has paid total excise duty of Rs.10,00,000 or more including the amount of duty paid by utilisation of CENVAT credit in the preceding financial year:

(i) Annual Financial Information Statement - ER-4 [Rule 12(2) of the Central Excise Rules, 2002]

(ii) Monthly return by EOU - ER-2 [Rule 17(3) of the Central Excise Rules, 2002]

(iii) Information relating to principal inputs - ER-5 [Rule 9A(1) of the CENVAT Credit Rules, 2004]

(iv) Monthly return of receipt and consumption of each of principal inputs - ER-6 [Rule 9A(3) of the CENVAT Credit Rules, 2004]

Further, the quarterly return of CENVATABLE invoices submitted by the first/second stage dealer under Rule 9(8) of the CENVAT Credit Rules, 2004 shall be filed electronically unconditionally.

The complete text of the above-mentioned notification can be downloaded from the following links: http://www.cbec.gov.in/excise/cx-act/notfns-2k10/cx-nt2k10/cent20-2k10.htm and

http://www.cbec.gov.in/excise/cx-act/notfns-2k10/cx-nt2k10/cent21-2k10.htm

II. Circulars:

1. Circular No. 922/12/2010-CX dated 18.05.2010 has further amended *Circular No. 752/68/2003-CX dated 01.10.03* to confer the power of adjudication on Superintendents for cases involving duty and/or CENVAT credit upto Rs. 1 Lakh in individual show cause notices. However, they would not be eligible to decide cases which involve excisability of a product, classification, eligibility of exemption, valuation and cases involving suppression of facts, fraud etc. Consequently, the Assistant/Deputy Commissioners are now empowered to adjudicate cases involving duty upto Rs. 5 lakh (except the cases where Superintendents are empowered to adjudicate).

The complete text of the above-mentioned circular can be downloaded from the following link:

http://www.cbec.gov.in/excise/cx-circulars/cx-circulars-10/922-2k10cx.htm

2. **Circular No. 923/13/2010-CX dated 19.05.2010:** *Circular No. 634/34/2002-CX dated 1st July 2002* as amended inter alia clarified that cost of return fare of vehicles was to be included in the assessable value of the excisable goods. The clarification to this extent has been withdrawn and it has been re-clarified that cost of return fare of vehicles is not required to be added for determining value. This clarification has been issued in view of the Tribunal's decisions in case of *DCW Ltd. v. CCE [2007 (217) ELT 541 (Mad.)]* and *Haldia Petrochemicals Limited v. CCEx. Haldia [2009 (233) E.L.T. 344 (Tri. - Kolkata)*}

The complete text of the above-mentioned circular can be downloaded from the following link:

http://www.cbec.gov.in/excise/cx-circulars/cx-circulars-10/923-2k10cx.htm

B. CUSTOM

I. Circular:

1. Circular No. 11/2010-Cus. dated 06.06.2010 has clarified the following issue:

Issue: Whether the assessable value of the warehoused goods which are sold before being cleared for home consumption should be taken as the price at which the original importer has sold the goods, before a Bill of Entry for home consumption is filed?

Clarification: With effect from 10.10.2007, section 14 of the Customs Act has been amended to provide that the value of the imported goods shall be the transaction value of goods. Transaction value is defined to mean the price actually paid or payable for the goods when sold for export to India for delivery at the time and place of importation. In the instant case, the goods are sold after being warehoused, therefore, it cannot be said that export of goods is not complete and thus the sale of warehoused goods cannot be considered a sale for export to India. Hence, the price at which the imported goods are sold after warehousing them in India does not qualify to be the transaction value as per section 14.

However, as per erstwhile section 14, applicable to period prior to October 2007, the value of the imported goods is deemed to be the price at which such or like goods are ordinarily sold, or offered for sale, for delivery at the time and place of importation or exportation, or as the case may be, in the course of international trade. In this case also, the sale of imported goods made after warehousing cannot be considered to have been made in the course of international trade and hence, the price at which such sale takes place cannot be the assessable value in terms of erstwhile section 14.

The complete text of the above-mentioned circular can be downloaded from the following link:

http://www.cbec.gov.in/customs/cs-circulars/cs-circulars10/circ11-2k10-cus.htm

C. SERVICE TAX

I. Circular:

1. Circular No. 123/2010-ST dated 24.05.2010 has been issued to clarify the taxability of activities like:

- laying of cables under or alongside roads;
- shifting of overhead cables to underground on account of renovation/widening of roads;
- laying of electrical cables under or alongside roads/railway tracks;
- electrification of railways, installation of street-lights, traffic lights, flood-lights etc.

The chargeability of the above activities under specific categories of service has been explained in the following table:

S. No.	Taxable service	Coverage of the above activities under the respective services
1.	Commercial or industrial construction services	Only such electrical works that are parts of (or which result in emergence of a fixture of) buildings, civil structures, pipelines or conduits are covered under this taxable service. Further, such activities undertaken in respect of roads, railways, transport terminals, bridges, tunnels and dams are outside the scope of levy of service tax under this taxable service.
2.	Erection, commissioning or installation services	Activity resulting in emergence of an erected, installed and commissioned plant, machinery, equipment or structure or resulting in installation of an electrical or electronic device (i.e. a machine or equipment that uses electricity to perform some other function) are covered under this taxable service.
3.	Works Contract	Activities excluded from aforesaid two services would generally remain excluded from this taxable service as well.
4.	Site formation and clearance, excavation, earthmoving and demolition services	Services provided independently and not as part of a complete work are covered under this taxable service. Thus, site formation and excavation activities provided in respect of a complete work like that of laying of cables under the road will not be taxable.

Further, the taxable status of various activities, on which disputes have arisen is clarified in the following table:

S. No.	Activity	Taxable Service/ Non-taxable service	Relevant category of service	Relevant clause of Section 65(105) of the Finance Act, 1994
1.	Shifting of overhead cables/wires for any reasons such as widening/renovation of roads	Non-taxable service	-	-
2.	Laying of cables under or alongside roads	Non-taxable service	-	-
3.	Laying of electric cables between grids/sub-stations/ transformer stations en route	Non-taxable service	-	-
4.	Installation of transformer/ sub-stations undertaken independently	Taxable service	Erection, commissioning or installation services	(zzd)
5.	Laying of electric cables up to distribution point of residential or commercial localities/complexes	Non-taxable service	-	-
6.	Laying of electric cables beyond the distribution point of residential or commercial localities/complexes.	Taxable service	Commercial or industrial construction' or 'Construction of complex' service	(zzq)/(zzzh)
7.	Installation of street lights, traffic lights flood lights, or other electrical and electronic appliances/devices or providing electric connections to them	Taxable service	Erection, commissioning or installation services	(zzd)
8.	Railway electrification, electrification along the railway track	Non-taxable service	-	-

The clarifications are essentially general in nature. Thus, facts and circumstances of each case will have to be considered while applying these clarifications. The pending disputes /cases may be decided based on the clarifications contained in this circular.

The complete text of the above-mentioned notifications service tax can be referred from the link: http://www.servicetax.gov.in/st-cirmainpg.htm

(Matter on Indirect Taxes has been contributed by the Indirect Taxes Committee of the ICAI)

FEMA

1. Foreign Direct Investment (FDI) in India - Transfer of Shares / Preference Shares / Convertible Debentures by way of Sale - Revised pricing guidelines

RBI/2009-10/445 A. P. (DIR Series) Circular No.49 dated May 04, 2010

(Ref - Foreign Exchange Management (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2000, notified vide Notification No. FEMA 20/2000-RB dated May 3, 2000)

The extant guidelines have been reviewed by the RBI in consultation with the Government of India and accordingly the pricing guidelines in respect of issue of shares including preferential allotment have been revised.

Pricing guidelines applicable to transfer of shares from resident to non-resident and vice versa are issued vide this Circular whereas Notification No. FEMA 205/2000-RB notifies pricing guidelines applicable to issue of shares including preferential allotment and issue on right basis. (The Circular provides Notification No.205 as Annexure II)

Revised pricing guidelines based on joint reading of AP (DIR Series) Circular No. 49 and Notification No. FEMA 205/2000-RB dated 7th April 2010; are summarised as under:

Sr. No.	Listed Indian Entity	Unlisted Indian Entity
1	Allotment of Shares on Right basis	
	At price determined by company	At a price not less than the price at which offer on right basis is made to resident shareholders
2	Issue of shares under FDI scheme	
	In accordance with SEBI guidelines	The price **not less than** the Fair value of shares done by SEBI registered Category - I Merchant Banker or Chartered Accountant as per **Discounted Free Cash Flow method.**
3	Transfer of shares from resident to non-resident	
	The price at which a preferential allotment of shares can be made in accordance with the applicable SEBI guidelines, as applicable, provided that the same is determined for such duration as specified therein, preceding the relevant date, which shall be the date of purchase or sale of shares.	The price **not less than** the fair value to be determined by a SEBI registered Category – I Merchant Banker or a Chartered Accountant as per the **Discounted Free Cash Flow method.**
4	Issue of Shares on Preferential allotment basis	
	Where the issue of shares is on a preferential allotment basis, the price as applicable to transfer of shares from resident to non-resident as per the pricing guidelines laid down by RBI from time to time, as given in Para 3 above.	Where the issue of shares is on a preferential allotment basis, the price as applicable to transfer of shares from resident to non-resident as per the pricing guidelines laid down by RBI from time to time, as given in Para 3 above.
5	Transfer of shares from non-resident to resident	
	Price of shares transferred by way of sale, by non-resident to resident shall not be more than the minimum price at which the transfer of shares can be made from a resident to a non-resident as given in Para 3 above.	Price of shares transferred by way of sale, by non-resident to resident shall **not be more than** the minimum price at which the transfer of shares can be made from a resident to a non-resident as given in Para 3 above.

2. RBI/2009-10/446 A. P. (DIR Series) Circular No.50 & A. P. (FL Series) Circular No. 7 dated May 04, 2010

Release of Foreign Exchange for Visits Abroad – Currency Component

(Ref - A.P.(DIR Series) Circular No. 19 dated October 30, 2000 and A.P. (DIR Series) Circular No.11 [A.P. (F.L. Series) Circular No.1] dated November 13, 2001)

According to extant policy Authorised Dealers and Full

Fledged Money Changers are permitted to sell foreign exchange in the form of foreign currency notes and coins, up to USD 2,000 or its equivalent, to the travellers proceeding to countries other than Iraq, Libya, Islamic Republic of Iran, Russian Federation and other Republics of Commonwealth of Independent States.

The existing limits have been reviewed and revised limits are indicated below:

Sr. No.	Countries	Amount
1	Travellers proceeding to countries other than Iraq, Libya, Islamic Republic of Iran, Russian Federation and other Republics of Commonwealth of Independent States	not exceeding USD 3,000 or its equivalent
2	Travellers proceeding to Iraq or Libya,	not exceeding USD 5000 or its equivalent
3	Travellers proceeding to Islamic Republic of Iran, Russian Federation and other Republics of Commonwealth of Independent States.	Full exchange released

3. RBI/2009-10/456 A. P. (DIR Series) Circular No. 51 dated May 11, 2010

External Commercial Borrowings (ECB) Policy

As per the extant norms, Infrastructure Finance Companies (IFCs) (i.e. NBFCs categorised as IFCs by RBI) has been permitted to avail of ECBs for on-lending to the infrastructure sector under the approval route.

As a measure of liberalisation of the existing procedures, RBI has permitted the IFCs to avail of ECBs, including the outstanding ECBs, up to 50 per cent of their owned funds under the automatic route, subject to their compliance with the prudential guidelines already in place.

ECBs by IFCs above 50 per cent of their owned funds would require the approval of the Reserve Bank and will, therefore, be considered under the approval route.

All the other aspects of ECB policy such as USD 500 million limit per company per financial year under the automatic route, eligible borrower, recognised lender, end-use, average maturity period, prepayment, refinancing of existing ECB and reporting arrangements remain unchanged.

4. RBI/2009-10/465 A. P. (DIR Series) Circular No. 52 dated May 13, 2010

Foreign Exchange Management Act (FEMA), 1999 - Current Account Transactions – Liberalisation

(Ref - Foreign Exchange Management (Current Account Transactions) Rules, 2000)

According to Rule 4 of the Foreign Exchange Management (Current Account Transactions) Rules 2000, prior approval of the Ministry of Commerce and Industry, Government of India, is required for drawing foreign exchange for remittances under technical collaboration agreements where payment of royalty exceeds 5 per cent on local sales and 8 per cent on exports and lump-sum payment exceeds USD 2 million [item 8 of Schedule II to the Foreign Exchange Management (Current Account Transactions) Rules, 2000].

The Government of India has reviewed the extant policy with regard to liberalisation of foreign technology agreement and it was decided to omit item number 8 of Schedule II to the Foreign Exchange Management (Current Account Transaction) Rules, 2000, and the entry relating thereto.

Accordingly, AD Category-I banks may permit drawal of foreign exchange by persons for payment of royalty and lump-sum payment under technical collaboration agreements without the approval of Ministry of Commerce and Industry, Government of India.

5. RBI/2009-10/474 A. P. (DIR Series) Circular No. 54 May 26, 2010

Remittance towards participation in lottery, money circulation schemes, other fictitious offers of cheap funds, etc.

(Ref - A.P. (DIR Series) Circular No. 22 dated December 7, 2000, A.P. (DIR Series) Circular No. 02 dated July 27, 2001 and A.P. (DIR Series) Circular No. 49 dated June 4, 2002, Press Release – 2009-2010/168 dated 30-7-2009 on 'Beware of fictitious/ lottery winning/ cheap fund offers: RBI, Press Release – 2007-2008/770 dated 7-12-2007 on

'RBI cautions Public against Fictitious Offers of Remitting Cheap Funds from Abroad')

RBI in Press release – 2007-2008/770 clarified that *"remittance in any form towards participation in lottery schemes is prohibited under Foreign Exchange Management Act, 1999. Further, these restrictions are also applicable to remittances for participation in lottery-like schemes functioning under different names, such as, money circulation scheme or remittances for the purpose of securing prize money/ awards, etc. The Reserve Bank of India has further clarified that it does not maintain any account in the name of individuals/ companies/ trusts in India to hold funds for disbursal".*

RBI has observed that there has been a spate of fictitious offers of cheap funds in recent times from the fraudsters through letters, e-mails, mobile phones, SMS, etc. Communications on fake letterheads of RBI and purportedly signed by its top executives/ senior officials are also being sent to targeted people. Many residents have been victims of such teasing offers and lost huge money in the process.

It has been brought to the notice of the Reserve Bank that fraudsters are seeking money from the gullible people, under different heads, such as, processing fees/ transaction fees/ tax clearance charges/ conversion charges, clearing fees, etc. The victims of the fraud have also been persuaded to deposit the amount in accounts with banks in India, and such amounts have been withdrawn immediately. It is also observed that multiple accounts are being opened in the name of individuals or proprietary concerns, at different bank branches for collecting the transaction charges, etc.

AD Category - I banks are, therefore, advised to exercise due caution and to be extra vigilant while opening or allowing transactions in such accounts. RBI has clarified that any person resident in India collecting and effecting/ remitting such payments directly/ indirectly outside India would make himself/ herself liable to be proceeded against with, for contravention of the FEMA besides being liable for violation of regulations relating to Know Your Customer (KYC) norms/ Anti Money Laundering (AML) standards.

The complete text of the above-mentioned circulars and notifications on FEMA can be downloaded from the link: http://www.rbi.org.in

(Matter on FEMA has been contributed by CA. Manoj Shah and CA. Hinesh Doshi)

CORPORATE LAWS

1.Company Law Settlement Scheme

www.mca.gov.in

The Ministry of Corporate Affairs has issued Circular No. 1/2010 dated 26.05.2010 announcing the Company Law Settlement Scheme, 2010 ("CLSS") (http://mca.gov.in/Ministry/latestnews/CircularCLSS_27may2010.pdf) which shall come into force on 30 May, 2010 and shall remain in force upto 31 August, 2010. The CLSS, 2010 is specifically for companies which have not filed their due documents timely with the office of the Registrar of Companies leading to records in the Government's electronic registry not updated and hence not available for inspection by stakeholders. The CLSS, 2010 would allow opportunity to such defaulting companies to clear their default and became compliant by paying small additional fees. The CLSS also enables companies to comply with the requirement of minimum authorised/ paid-up capital in terms of section 3 of the Companies Act, 1956. Fees payable for the purpose would be the filing fee plus an additional filing fee of 25 per cent of the actual additional fee. An application (for consideration of the RoC) may be made by the defaulting company for seeking immunity from penalty and prosecution proceedings for document(s) filed under the CLSS within six months from the date of the closure of CLSS. The CLSS shall not apply to certain categories of specified companies. Companies remaining in default after the closure of CLSS may invite RoC action. One may make reference to the MCA portal (at link given above) for guidance on detailed procedure and forms filing.

2.Easy Exit Scheme

www.mca.gov.in

The Ministry of Corporate Affairs has issued Circular No. 1/2010 dated 26.05.2010 announcing the Easy Exit Scheme, 2010 ("EES") (http://mca.gov.in/Ministry/latestnews/CircularEES27may2010.pdf) which shall come into force on 30 May, 2010 and shall remain in force upto 31 August, 2010. The EES, 2010 is specifically for companies which have been registered but have remained inoperative since their incorporation or have not commenced business (after 1 April, 2008) for various reasons and have also not filed the due documents with the office of the Registrar of Companies. Even companies which have not raised its paid-up capital to the minimum paid-up capital requirement are covered. The EES, 2010 allows such defunct companies which may be desirous to get their name struck-off from the Register of Companies in terms of section 560 of the Companies Act, 1956. It is relevant to note that, (a) any defunct company having active status on MCA portal may apply under EES for getting its name strike off from the Register of Companies, and (b) a Government company shall submit 'No Objection Certificate' issued by the concerned Administrative Ministry or Department or State Government along with the application under this Scheme. The EES is not applicable to certain companies like listed companies, section 25 companies, vanishing (defined in the scheme) companies, inspection/ investigation ordered companies, companies having secured loans/ management dispute/ outstanding statutory dues, etc. One may make reference to the MCA portal (at link given above) for guidance on detailed procedure and forms filing.

3. Public shareholding threshold requirement for listed companies increased to 25 per cent

www.pib.nic.in

The Ministry of Finance has issued Press Release No. BY/GN-182/10 dated 04.06.2010 whereby the Securities Contracts (Regulation) (Amendment) Rules, 2010 to raise

the minimum threshold of public shareholding to 25 per cent for all listed companies (without any exception). The following are the additional noteworthy features of the press release:

- existing listed companies having less than 25 per cent public holding have to reach the minimum 25 per cent level by an annual addition of not less than 5 per cent to public holding
- for new listing, if the post issue capital of the company calculated at offer price is more than Rs. 4,000 crore, the company may be allowed to go public with 10 per cent public shareholding and comply with the 25 per cent public shareholding requirement by increasing its public shareholding by at least 5 per cent per annum
- for companies whose draft offer document is pending with Securities and Exchange Board of India, on or before these amendments, they are required to comply with 25 per cent public shareholding requirement by increasing its public shareholding by at least 5 per cent per annum, irrespective of the amount of post issue capital of the company calculated at offer price
- a company may increase its public shareholding by less than 5 per cent in a year if such increase brings its public shareholding to the level of 25 per cent in that year
- every listed company shall maintain public shareholding of at least 25 per cent. If the public shareholding in a listed company falls below 25 per cent at any time, such company shall bring the public shareholding to 25 per cent within a maximum period of 12 months from the date of such fall.

One may refer to the above website for further details.

4. Disclosure of regulatory orders and arbitration awards on depository website

www.sebi.gov.in

The SEBI has issued Circular No. CIR/MRD/DP/19/2010 dated 10.06.2010 advising Depositories to post all their regulatory orders and arbitration awards issued since April 1, 2007, on their websites within 30 days and that all the regulatory orders and arbitration awards as and when issued by Depositories from the date of this circular shall be posted on their website immediately. This is for improving transparency in disclosing the regulatory orders and arbitration awards issued by depositories in the interest of investors and to improve transparency. The rationale was that all regulatory orders against listed companies, depository participants, trading/ clearing members and arbitration awards issued by Depositories need to be made available to investors. One may refer to the above website for further details.

5.Certification requirement for associated persons distributing mutual fund products

www.sebi.gov.in

The SEBI has issued Notification No. LAD-NRO/GN/2010-11/09/6422 dated 31.05.2010 notifying that with effect from 1st June, 2010, distributors, agents or any persons employed or engaged or to be employed or engaged in the sale and/or distribution of mutual fund products shall be required to have a valid certification from the National Institute of Securities Markets (NISM) by passing the certification examination. This is in terms of the SEBI (Certification of Associated Persons in the Securities Markets) Regulations, 2007. It is clarified that if the associated person possesses a valid certificate by passing before 1st June, 2010, the AMFI Mutual Fund (Advisors) Module, such person shall be exempted from the requirement of the NISM certification examination. One may refer to the above website for further details.

6.Easy accessibility of annual reports of listed companies

www.sebi.gov.in

The SEBI has issued Circular No. CFD /DCR/5 /2010 dated 07.05.2010 advising all Stock Exchanges to carry out amendments to the Equity Listing Agreement by omitting of Clause 51 from the Listing Agreement which relate to requiring listed companies to upload full version of Annual Report on EDIFAR website. This is in view of the recent decision of SEBI to discontinue the EDIFAR site after which it became necessary to ensure that annual reports of listed companies are available/ easily accessible to investors on alternative sites. Accordingly, all stock exchanges are advised to make the annual reports for the financial year 2009-10 onwards, submitted to stock exchange as per Clause 31 of equity listing agreement, to be made available on their respective websites. One may refer to the above website for further details.

(Matter on Corporate Laws has been contributed by CA. Jayesh Thakur)

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Transfer price for the purpose of segment reporting.

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 company is a public sector enterprise under the administrative control of Ministry of Mines, Government of India and is engaged in mining of Bauxite, manufacturing of Alumina and Aluminium, generation of power at Captive Power Plant for use in Smelter, and selling of Alumina and Aluminium both in domestic and international market. The company has four production units (i) fully mechanised open cast Bauxite Mine having excavation capacity of 48,00,000 tonnes per annum (ii) Aluminium Refinery having production capacity of 15,75,000 tonnes per annum (iii) Captive Power Plant having 8 units of 120 MW each to generate power and (iv) Smelter Plant of 3,41,000 tonnes per annum capacity.

2. Mines Division, which is located on hills, serves feed-stock to the Alumina Refinery located 16 KM downhill. The Refinery provides alumina to the company's Smelter Plant which is about 600 KM away by a specially designed alumina wagon by rail transport. For production of 1 MT of Alumina at Smelter, 13,600 KWH of power is required, which is met by generation of power at Captive Power Plant situated at a distance of 4 KM. Cost of power constitutes about 30 per cent of cost of production of Aluminium. Captive Power Plant is set up exclusively to supply uninterrupted power to Smelter. It is also connected to State grid to take care of the supply of emergency power to Smelter in case of any break-down or failure at Captive Power Plant. Any surplus power after meeting the requirement of Smelter is automatically transmitted to State grid and treated as sale, as per agreement with company 'G', which is a State Government undertaking.

3. The company has identified the following three reportable segments on the basis of the type of products:

(i)	Chemical Segment	For Bauxite Mining and Alumina Plant
(ii)	Power Segment	For Captive Power Plant
(iii)	Aluminium	For Smelter Plant

4. The company has entered into an agreement dated 30th August, 2004, valid upto 31st August, 2009 with company 'G' for sale and purchase of power.

(a) For sale of surplus power, the base price is:

(i)	Upto 40 MU/ month	@ 110 paise/kwh
(ii)	Beyond 40 MU/ month upto 60 MU/month	@ 112 paise/kwh
(iii)	Beyond 60 MU/ month upto 80 MU month	@ 114 paise/kwh
(iv)	Beyond 80 MU/ month upto 100 MU month	@ 118 paise/kwh
(v)	Beyond 100 MU/month	@ 122 paise/kwh

The agreement provides for escalation in case of increase in prices of 'F' grade coal obtained domestically and fuel oil, and has a provision for supply of emergency power and back-up power by company 'G'.

The above escalation does not take into account the higher impact on cost due to use of e-auction coal and imported coal.

(b) Rate for emergency power and back-up power

For supply of emergency power and back-up power, company 'G' charges at a rate three times the weighted average rate of power for the month injected by the company, as mentioned at (a) above.

5. The querist has stated that explanation on 'inter-segment transfers' given at the end of Appendix III (termed as Illustration-III in the notified Accounting Standard) to Accounting Standard (AS) 17, 'Segment Reporting', reads as follows:

"Segment revenue, segment expenses and segment result include transfers between business segments and between geographical segments. *Such transfers are accounted for at competitive market prices charged to* *unaffiliated customers for similar goods. Those transfers are eliminated in consolidation."* [Emphasis supplied by the querist.]

The querist has stated that at present company 'G' is the only unaffiliated customer for the company. Accordingly, the average of rates as mentioned at paragraph 4(a) charged to company 'G' is considered as transfer price for the purpose of inter-segment transfer of power, i.e., power exported to Smelter division, and to Aluminium Refinery by way of wheeling of power through company 'G'.

6. In the event of short supply of linkage coal from domestic sources, the company is forced by the circumstances to consume imported coal, which results in higher cost of generation of power. The sale price, as detailed in paragraph 4(a) above is not remunerative as compared to the cost of generation and as such, management decided to generate power only to meet the internal consumption of Smelter and Aluminium Refinery, thereby avoiding sale of power to company 'G' at loss. However, this cannot be avoided in totality and hence, most of the sales are made only @ 110 paise/kwh.

7. As per the querist, even though, the cost of generation of power is higher, as per AS 17, as stated at paragraph 5 above, transfer price of power for the purpose of segment reporting is considered only at 110 paise/kwh, which results in segment loss in case of Captive Power Plant (even though the unit is functioning efficiently and upto the satisfaction of the management) and higher revenue for Chemical and Aluminium segments.

8. Segment report for the quarter ended 31st December, 2008 was examined by the statutory auditors at the time of limited review and they were of the opinion that though the unit is performing well, as a result of compliance with the provisions of AS 17 for inter-segment transfers, as stated hereinbefore, the power segment reveals loss, which does not appear to be a proper disclosure.

9. As per the querist, in case the company is allowed to sell power to parties other than company 'G', revenue earned will be at least three to four times more. However, since the company is largely dependent upon company 'G' for emergency power and back-up power, it will not be practicable to delink from company 'G'. The present agreement with company 'G' is valid upto 31st August, 2009. Efforts have already been put in motion to get higher sales price per unit, which will recoup the higher cost of generation. In such a situation, power segment will again start showing profit in segment report.

10. From the aforesaid facts, according to the querist, it is revealed that the circumstances have arisen only because of non-remunerative sale price and will continue to be the same till the rate charged from company 'G' is revised.

11. Audit Committee of the company advised the management to seek opinion on the subject from the Expert Advisory Committee of the Institute of Chartered Accountants of India.

B. Query

12. The querist has sought the opinion of the Expert Advisory Committee as to whether in the circumstances explained above, the loss disclosed in the segment report can be explained by way of giving a note with reference to the provision of Accounting Standard or whether any other formula for transfer pricing can be adopted, which may necessitate revision of AS 17.

C. Points considered by the Committee

13. The Committee notes that the basic issue raised by the querist relates to pricing of inter-segment transfers for segment reporting under Accounting Standard (AS) 17, 'Segment Reporting'. Therefore, the Committee has examined only this issue and has not examined any other issue that may be contained in the Facts of the Case, e.g., whether reportable segments are properly identified by the company in accordance with AS 17, etc.

14. The Committee notes the following paragraphs of AS 17:

"5.10 <u>Segment accounting policies</u> are the accounting policies adopted for preparing and presenting the financial statements of the enterprise as well as those accounting policies that relate specifically to segment reporting."

"18. While the accounting policies used in preparing and presenting the financial statements of the enterprise as a whole are also the fundamental segment accounting policies, segment accounting policies include, in addition, policies that relate specifically to segment reporting, such as identification of segments, method of pricing inter-segment transfers, and basis for allocating revenues and expenses to segments."

"53. In measuring and reporting segment revenue from transactions with other segments, inter-segment transfers should be measured on the basis that the enterprise actually used to price those transfers. The basis of pricing inter-segment transfers and any change therein should be disclosed in the financial statements."

15. From the above, the Committee notes that inter-segment transfer pricing is an accounting policy which relates specifically to segment reporting and that inter-segment transfers should be measured on the basis that the enterprise actually used to price those transfers. In other words, the price that is actually used in the books of account to reflect the transaction between different segments and the price that is used to reflect segment results for the purpose of segment reporting under AS 17, should be same. The Committee notes that AS 17 neither requires nor recommends that inter-segment transfers should be priced in any particular manner, such as, competitive market prices charged to unaffiliated customers for similar goods as stated by the querist. The portion from AS 17 quoted by the querist in paragraph 5 above is an extract from Appendix III (termed as Illustration III in the notified Accounting Standard), 'Illustrative Segment Disclosures'. At the beginning of the said Appendix itself, it is clearly mentioned that the Appendix does not form part of the Accounting Standard and that its purpose is to illustrate the application of paragraphs 38-59 of the Accounting Standard. It is only by way of illustration that the basis of pricing inter-segment transfers is stated to be competitive market prices charged to unaffiliated customers for similar goods in the said Appendix. The Committee is of the view that as per AS 17, an enterprise is free to choose any appropriate pricing policy for inter-segment transfers, for example, at cost, or cost plus a fixed return, or market price of the product, etc. Thus, the question of explanation of the loss with reference to any provision/requirement of AS 17, if the existing policy is continued to be followed, by way of a note to the segment report, does not arise. However, if the company chooses, the loss may be explained by way of a note to the segment report; the note should not state that AS 17 requires adoption of that particular pricing policy. Also, revision to AS 17 with respect to the issue raised by the querist, is not required.

16. The Committee is of the view that the above views of the Committee are also relevant in the context of segment reports furnished along with unaudited quarterly financial results which are subject to limited review.

D. Opinion

17. On the basis of the above, the Committee is of the opinion that the company is free to choose any appropriate pricing policy for inter-segment transfers. Thus, the question of explanation of the loss with reference to any provision/requirement of AS 17, if the existing policy of transfer pricing is continued to be followed, by way of a note to the segment report, does not arise. However, if the company chooses, the loss may be explained by way of a note to the segment report; the note should not state that AS 17 requires adoption of that particular pricing policy. Also, revision to AS 17 with respect to the issue raised by the querist, is not required.

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 six volumes. A CD of Compendium of Opinions containing twenty five 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.

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Transfer Pricing – Some Practical Issues*

Transfer Pricing has evolved as one of the most debated issues of the decade in international taxation community. As scrutiny of the international transactions is still in the nascent stage, not only tax payers but also the tax authorities are grappling with challenges while implementing the law. As globalisation of Indian economy continues to accelerate, Transfer Pricing continues to be on the high priority of the tax authorities in the near future. This article intends to throw light on some of the practical issues emerging from the limited audit experience in India.

(Contributed by Committee on International Taxation of the ICAI. Comments can be sent to citax@icai.org)

Introduction

Increasing globalisation has resulted in formation of multinational groups expanding their presence across the globe by establishing subsidiaries/ affiliates all over the world. The business transactions between such affiliates are recognised as 'Transfer' as against the accounting concept of 'Sale'/'Purchase' and the price charged for such transactions is termed as 'Transfer Price'.

Such multinational groups usually set up a Transfer Price to optimise their overall revenues and reduce their tax outflows, by allocating more profits from a higher tax jurisdiction to a lower tax jurisdiction. This leads to erosion of tax base thereby resulting in loss of otherwise legitimate taxes in a country where tax rates are higher.

In view of the fact that almost 60 per cent of the world's cross-border trade is between the related parties, the concept of Transfer Pricing (TP) has assumed paramount significance. Various countries have set up regulations to check evasion of taxes by TP mechanism. The OECD has also come out with a separate set of guidelines for providing guidance to various countries in TP matters.

Transfer Pricing in India – An Evolving Subject

Recognising the magnitude of transactions carried out by MNCs with their affiliates in India, and the need to curb tax evasion through Transfer Price, India too introduced TP regulations in the year 2001-02 (i.e. AY 2002-03). These regulations provide a comprehensive code relating to computation of income from international transactions having regard to Arm's Length Price ('ALP'). ALP is the price at which a transaction takes place between two unrelated parties in uncontrolled market situation. In order to comply with the TP regulations, every international transaction between affiliate entities should meet arm's length test.

Ever since first year of assessment i.e. AY 2002-03, TP adjustments are amongst the focus areas of revenue authorities. As per one estimate total cases selected for the TP assessment are in excess of 7,500 and TP adjustments made till date (i.e. from AY 2002-03 to AY 2006-07) is amounting to Rs. 22,500 crore.

Consequently, TP in India is increasingly becoming the most debated and litigated topic. Therefore,

* *Views and opinions expressed in the article are those of International Taxation Committee member(s) and not those of the Committee or the Council of the ICAI.*

it becomes imperative not only to understand and deliberate upon, but also to analyse some of the significant issues and practical challenges faced while dealing with tax authorities

Challenges & Recent Rulings

Indian tax authorities are seen as adopting an increasingly aggressive approach on TP related issues. In the recent past, taxpayers faced significant challenges in defending their transfer prices. Whether a particular transfer price is acceptable as being at arm's length or not depends to a large extent on the process of selecting most appropriate method or comparable data for the analysis. The lack of qualitative comparable data in public domain is a challenge faced by the taxpayers while preparing their documentation/audit defence. This challenge is further compounded by the approach adopted the Transfer Pricing Officers (TPOs) during audits.

In the following paragraphs we have discussed some of the recent practical issues/controversies and recent significant rulings of Tax Tribunals in respect of TP issues:

Selection of Comparables: Identification of comparables is one of the key mechanisms while undertaking TP exercise to establish arm's length nature of a transaction. Though identification of mirror image comparables is an impossible task, Rule 10B attempts to provide broad evaluation criteria to be kept in mind while judging comparability. Additionally, inferences can be drawn from OECD Transfer Pricing Guidelines which enumerate detailed guidelines on comparability. However, in absence of one affirmative law, selection of comparables has evolved as one of the highly litigated areas at the time of TP assessment.

Functional Similarity: Typically for the purpose of establishing similarity "an apple should be compared with an apple". Based on this principle, transactions of a tested party should be compared with an entity which is at par with the former in terms of – business model, functions performed, risks assumed, assets employed, nature and character of goods and services, geographical location, industry conditions, etc.

Unless a prospective comparable does not meet the utmost significant functionality test, it should be rejected. The widely recognised publicly available databases like Prowess and Capitaline provide industry-wise classification of the companies for the ease of search. However, such classification has to be backed up by establishing functional similarity while selecting final comparables. It is pertinent to note that getting the data in respect of functional similarity from the publicly available information is a Herculean task.

In the past, Indian Tribunals in the cases of [1]Mentor Graphics, [2]eGain Communication. [3]Sony India and [4]Philips Software have dealt with the importance of functional and risk analysis and acknowledged the need to make suitable adjustments to the comparable data to account for differences in risk profile of the tax payer vis-à-vis comparable companies. Recently, Chandigarh Special Bench, in case of [5]Quark Systems has reinstated the importance of functional similarity and provided the much required clear directions on the subject.

High Profit & Loss Making Companies: "Apples should be compared with the apples – neither the overripe nor the rotten ones". Applying this criterion, tax authorities are challenging selection of loss making companies as comparables by taxpayers who in turn are counter-questioning inclusion of abnormally high profit making companies as comparables by tax authorities. Under the normal market situations, enterprises engaged in similar business would broadly be earning similar margins. The fact that a company is making supernormal profits is indicative of variations vis-à-vis that of the tested party. The difference could be on account of the business activities, risk profile, level of operations, accounting methods, year of incorporation, etc.

In this context, Pune Tribunal in case of eGain Communication has reiterated that extra-ordinary level of profitability calls for further examination of circumstances and an adjustment should be made to eliminate the differences before accepting the comparable. Nonetheless, if it is not possible to identify or quantify adjustment, the company should be dropped. Recently, Chandigarh Special Bench in Quark Systems rules that mere incurring of loss in not the rejection criteria of an otherwise comparable.

The Delhi Tribunal in case of Mentor Graphics has observed that high loss making companies should be excluded. Further, though it is common to incur loss in business in a particular year, but if a company is consistently making losses, it should be excluded from list of comparables. Delhi Tribunal in case of Sony India has reaffirmed the position.

Accordingly, while the Revenue authorities promptly exclude

[1] *Mentor Graphics Private Limited vs. Deputy Commissioner of Income Tax (112 TTJ 408)*
[2] *eGain Communication Private Limited v. Deputy Commissioner of Income Tax (2008-TIOL-282-ITAT-PUNE)*
[3] *Sony India Private Limited v. Deputy Commissioner of Income Tax (114 ITD 448)*
[4] *Philips Software Center Private Limited v. Asst. Commissioner of Income Tax – (2008-TIOL-471-ITAT-BANG)*
[5] *Quark Systems Pvt. Ltd v. Deputy Commissioner of Income Tax [2010-TIOL-31-ITAT-CHDSB]*

consistently loss making companies from the list of comparables, they should also do the same for very high profitable companies.

Related Party Transactions: In order to determine the ALP, controlled transaction between two associated entities should be compared with an uncontrolled transaction between unrelated parties. However, practically it is extremely difficult to identify the companies which do not have even a single rupee related party transaction ('RPT').

Now the question is what is the reasonable level of RPT that will not impact pricing of the transactions. While Delhi Tribunal in case of Sony India held that 10 to 15 per cent related party transactions cannot significantly affect the profit and comparability would not be distorted if such comparables are included, on the contrary, Bangalore Tribunal in Philips' case pointed out that even a single rupee related party transaction requires that comparable to be rejected.

One way out is use of consolidated financials to eliminate the effect of related party transactions, though availability of the same and acceptance by tax authorities would be a practical challenge.

Use of Contemporaneous Data - Rerun of Comparable Search: Typically, TP assessment is carried out after two to three years from the preparation of TP study. Rule 10D(4) provides that the information/data used for search should be contemporaneous and should exist latest by the due date of filing return. Generally, data bases are not updated till the date of filing of return i.e. September and hence there is a practical difficulty of applying Rule 10D(4) of the Rules.

Nevertheless, at the time of assessment, tax authorities re-run the entire comparable search on the latest updated publicly available databases – Prowess and Capitaline and for obvious reasons, sometimes new comparable companies are identified which were not available at the time of search conducted by the taxpayer. Thus, the margins and comparables arrived at by the tax authorities differ from that adopted by the taxpayer in his study and tax authorities make an adjustment to the taxpayer's arm's length price on the basis of latest study.

> **“Huge adjustments have been made in the assessments of multinational enterprises by the Indian Revenue authorities without appreciating the above mentioned rationales. There is no clear guidance in respect of valuation/treatment of marketing intangibles in the Indian TP regulations. A clear headway in connection with the treatment of marketing intangibles is awaited to clear the clouds of ambiguity on this issue.”**

This issue is a major subject matter of litigation. Judicial precedents such as Philips Software have held that use of data, which was not available at the time of complying with the requirements under the Act and the relevant Rules (i.e. at the time of signing of 3CEB form), is contradictory to the regulations.

Multiple Year Data: Tax payers are considering the financial results of the comparable companies for two to three years to even out the cyclical changes, abnormality of operations in one year, etc. The Regulations, in the proviso to Rule 10B(4), also recognise the need to use multiple year data. However, they restrict the use of data up to two years prior to the financial year in which the transaction was entered into and that also if they are used for determining the transfer prices. The use of multiple year data in conducting an economic analysis also finds support in the Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrators issued by the OECD.

Revenue Authorities are taking a view that the earlier year data normally does not influence the current year transaction and, therefore, the use of multiple year data is not accepted. Most of the recent judicial precedents have held that use of multiple year data is not allowed under the Indian transfer pricing regulations though they recognise the need to eliminate the cyclical changes, trends in profitability, etc. This controversy needs to be addressed at the earliest as almost all the companies adopting the TNMM method have to counter it.

Customs Valuation and Government Restrictions – Indicative of Arm's Length Price?

Typically for a transaction like import of goods, Customs authorities try and value the goods at a higher price whereas for TP purposes, the income-tax authorities would like to value the same at a lower price to check the reduction in profits, if any, due to higher prices paid to overseas related party. Hence, acceptability of the customs valuation of a transaction from TP perspective is a major issue of debate. Interestingly, amidst prevailing non-consensus in the international sphere regarding consistency in TP valuation for both tax and customs duty purposes, recently Spanish Supreme Court has ruled that the authorities are bound by their own assessment for one or the other tax. Taking the analogy, it can be contended that the valuation assessed by the tax authorities for customs duties purposes may be considered a "safe harbour".

Further, the impact of Government policy on TP has also been recognised in the OECD Guidelines. As per the Guidelines, there are some circumstances in which a taxpayer will claim that an ALP must be adjusted to account for government interventions such as price controls, interest rate controls, controls over payments for services or management fees, controls over the payment of royalties, subsidies to particular sectors, exchange control, anti-dumping duties, or exchange rate policy. As a general rule, these government interventions should be treated as conditions of the market in the particular country, and in the ordinary course they should be taken into account in evaluating the taxpayer's transfer price in that market. The US Regulations also recognise the relevance of legal restriction as a determinant of ALP subject to certain conditions.

Even though the Indian regulators recognise the need to consider government restrictions as a factor for determining ALP, they do not indicate that payments which are in accordance with the restrictions would be regarded at ALP. A view has been expressed that the restrictions provided for in the Government regulations could possibly be viewed as a ceiling from a Government Policy/Regulatory perspective. More clarity is awaited in this area.

Marketing Intangibles

The concept of 'Marketing Intangibles' has emerged as a vigorously debated issue within the TP community. While its precise meaning is rather unclear from a tax and legal perspective, and may vary in application by company and industry, the length and breadth of its grasp continues to grow as the concept has been widely applied.

Generally, the term 'Marketing Intangibles' can be meant to include brands, trademarks, local market position of a company or its products and know-how that surrounds a trademark such as the knowledge or distribution channels and customer relationship. Tax officers believe that the investment in these intangibles is derived from, among other things the company's levels of advertising, marketing and promotion expenses. This issue is particularly relevant for Indian entities of multinational enterprises that undertake significant advertisement, marketing and promotion expenses in India.

In recent audits, the TP authorities have examined the marketing activities and corresponding spend by Indian subsidiaries in developing local markets for the products manufactured by the overseas parents or other affiliates. For instance, where the Indian entity undertakes significant marketing expenditure and creates a marketing network for selling and distribution of the parent's products, revenue authorities are inclined to allocate substantially higher margins to Indian subsidiaries, than normal distribution margins.

In certain cases, the authorities have imputed a cost reimbursement to be received by the Indian entity, and in other cases, they have simply disallowed the "excessive" marketing expenditure incurred by the Indian entity. In all such cases, the intention has been to compensate the Indian subsidiary for its contribution toward development of marketing intangibles.

Economic benchmarking of the 'marketing intangibles' is quite challenging as there is no real database that addresses pure marketing intangibles. One can consider various rates of return on the cost of investment, but that is not entirely reflective of a market value for intangible property. Adding to the difficulty is the uncertain definition of what exactly constitutes marketing intangibles. In addition to trademarks and trade names, marketing intangibles can be company specific and may include customer lists, distribution channels, etc.

It is also important to consider the nature of the relationship between the related party manufacturer and the local distributor. Even assuming that it is possible to estimate a normal level of advertisement, marketing and promotional spending for a particular industry, and that the distributor in question spends at a greater rate than this routine level, a critical factor is whether the inter company arrangements are such that the distributor is assuming risks with an entrepreneurial role. If the inter company arrangements are such that the distributor is effectively guaranteed a routine profit level regardless of the level of its marketing expenditure, then the question of whether these expenses are above a normal level is not relevant because any resulting profits would be attributable to the manufacturer that is assuming the entrepreneurial risk.

Huge adjustments have been made in the assessments of multinational enterprises by the Indian Revenue authorities without appreciating the above mentioned rationales. There is no clear guidance in respect of valuation/treatment of marketing intangibles in the Indian TP regulations. A clear headway in connection with the treatment of marketing intangibles is awaited to clear the clouds of ambiguity on this issue.

Cost Contribution Arrangements

Cost Sharing, also known as Cost Contribution Arrangements ('CCA') has been long accepted both in theory and practice as a tool for achieving certain efficiencies when a firm is undertaking wide range of activities – from something as simple as centralised procurement to more complex shared business services or intangibles. Pooling of resources can minimise potential risk of loss from activities that require huge capital expenditure outlay such as research and development ('R&D'), IT developments, etc. CCAs have recently caught significant attention of the Indian tax authorities. Further, tax authorities are also emphasising on the application of appropriate allocation keys which should be in parity with the benefits received while allocating the costs to the Indian subsidiaries.

In order to satisfy the arm's length test each participant's share of the overall contributions to the subject activity should be consistent with the participant's proportionate share of the overall benefits expected to be received. Practically, it is difficult to put value on the benefits received in absence of clear guidelines. Further, justification/ evidence of benefits received by the tax payer/use of appropriate allocations keys are very subjective and open for different interpretations.

Taxpayers should maintain extensive documentation in support of the benefits received/cost saved or efficiency improved, failing which they could face significant adjustments on account cost allocations received from group companies.

Royalties – How to Benchmark?

The payment of a royalty for the use of intellectual property such as trademarks, know-how, brand names, etc., is a significant focus area of the revenue authorities. Royalty payments are commonly benchmarked using combined transaction approach which is not acceptable to the Revenue authorities.

Following are the practical issues in benchmarking of royalty transactions:

- Generally, internal CUP is unlikely as proprietary know-how would not be granted to a third party
- Limitation of publicly available data as:
  - Different period of payment
  - Nature of technology transfer
  - Product differentiation
  - Non availability of contractual terms
- Newsletters of SIA giving information regarding royalty rates are also discontinued now
- Valuation is a costly affairs with no surety of acceptance by revenue authorities
- Sometimes tax payers are applying RBI caps (i.e. 5 per cent or 8 per cent specified in exchange control regulations) as safe harbours. However, Revenue Authorities are not practically accepting the same. Further, recently RBI has removed the ceilings for payment of royalty and as such, issue is now more complicated.

Practically, revenue authorities are not accepting benchmarking of royalty using combined transactions approach and they would like to benchmark on transaction to transactions basis. There are instances of non-acceptance of benchmarking of royalty by using SIA approvals also. Further, transfer pricing authorities require tax payers to furnish cost incurred by parent company to invent the product and improvements, if any. Huge additions have been made on assumptions and presumption basis when the required information is not available with the tax payers.

It is advisable that tax payer should maintain extensive documentation containing nature of royalty, know-how or process received, clear cut benefit analysis/cost saved, etc. to defend any high pitch adjustment made by the tax officer. MNCs are expecting some clear cut guidelines for the benchmarking of royalty in safe harbour rules.

Risk Adjustments

During the last decade one of the fastest growing world economies – India, witnessed huge foreign capital inflows coupled with relocation of information technology, R&D, back office operations, contract manufacturing and other operations of many multinational enterprises. In majority of the cases Indian subsidiary is captive risk free entity which renders services only to the parent company or group companies.

To compare apple with apple it is pertinent to make adjustments in respect of lower risk profile of the captive risk free Indian subsidiary while comparing them with the full fledged service providers/manufacturers in India. The issue of risk adjustment assumes more significance in view of the huge TP adjustments undertaken by TPOs in the information technology/ IT enabled services/business process outsourcing sectors, where captive service units bearing limited risk have been compared with companies having different business and revenue models and bearing full entrepreneurial risks. Theoretically tax authorities also accept the need of risk adjustments. However, to quantify the risk adjustments is a bigger practical challenge. Recent rulings of appellate authorities have reinforced the need for such adjustments. However, neither the regulations nor the rulings provide any guidance on the methodology to be adopted for computing such adjustment.

Generally, corporates use various economic theories/methods as well as statistical tools for making a sound risk adjustment. Globally accepted TP techniques are also in vogue for undertaking this adjustment on a rational and scientific basis. However, there is a practical challenge of acceptability of the same by the revenue authorities.

Whether Overseas AE Can be Taken as Tested Party?

In order to determine the ALP, one of the two underlying parties to a transaction would be chosen as base–tested party. Tested party is taken as the reference point because if the transaction is established at arm's length at one point, it will automatically be at arms' length at other. The tested party's data would be compared to that of unrelated parties in the similar geographies to establish that the transaction is at ALP.

The Indian regulations neither provide any guidance on selection of tested party nor put any restriction on selection of the same. Typically, tested party would be a least complex participant in the controlled transaction who does not own intangibles, whose data can be verified more accurately and an entity which requires fewest adjustments. Hence, even the foreign entity who is a party to the transaction could also be the tested party. The view is equally supported by OECD Transfer Pricing Guidelines and US Transfer Pricing Regulations.

However, in India, there are conflicting decisions on this issue. Kolkata Tribunal has accepted selection of overseas AE as tested party in the decision of [6]Development Consultants whereas Delhi Tribunal has consistently rejected the choice of foreign tested party first in the case of [7]Global Vantage and subsequently in the decision of [8]Ranbaxy Laboratories on the grounds of different market conditions and economic realities (on the facts of the case). Though in case of Ranbaxy Laboratories, the Tribunal has rejected selection of overseas AE as tested party, it was, however, observed that in case of section of comparable controlled and uncontrolled transactions and entities, due consideration should be given to them, irrespective of their complexity. Least complex entity, by presumption is not the tested party.

Practically, at the time of assessment, determination of ALP considering the foreign tested party is a challenge before the tax authorities, since they do not have access to global databases and from the publicly available databases financial information of comparable companies is not frequently available. Accordingly, the Revenue authorities in India are averse to accept foreign party as a tested party. This causes a huge hardship in cases where an assessee can easily determine the ALP more accurately and rationally using the foreign tested party.

Interest-Free Loans

Sec. 92(1) of the Income-tax Act, 1961 ('Act') provides that 'any income' arising from an international transaction shall be computed having regard to the ALP. One such transaction which has recently caught the fancy of the Revenue authorities is lending/borrowing of interest free loans between group companies based on commercial expediency. In this context, if an Indian taxpayer provides interest-free loans to its outbound subsidiaries, "no income" arises to the taxpayer. Accordingly, prima facie, one can contend that the said transaction should not be subject to an "arm's length" evaluation.

This principle has been upheld by the Authority of Advance Rulings (AAR), in case of [9]Dana Corporation wherein it has been held that Section 92 is not an independent charging provision but deals with "Computation of income from international transactions". It provides that "any income arising from an international transaction shall be computed having regard to the ALP".

The expression 'income arises' postulates pre-existence of income. Accordingly, TP regulations could not apply when there was no income. This principle was also reiterated by AAR in another recent ruling in case of [10]Amiantit International Holding.

However, tax authorities are taking a view that under normal business situations no lender will grant interest free loan to the borrower. Even a situation where a group company is in the start-up phase and no one would have granted a loan to it, does not warrant charging Nil interest by the affiliate lender. Hence, interest ought to be charged on such loans which should meet ALP requirements.

"It is critical for multinational enterprises with operations in India to plan their business transactions so as to meet the transfer pricing challenges. The introduction of safe harbour regulations and DRP mechanism, MAP and proposed APA, can be viewed as concrete steps towards lifting the clouds of uncertainty and improving the investment climate in the country. However, the success or otherwise of new provisions would largely depend on the how they are implemented and their ability to minimise the tax litigation."

In this connection, recently, the Mumbai Tax Tribunal, in case of [11]VVF Limited has upheld the Revenue's contentions and observed that the purpose of making arm's length adjustments in prices at which transactions have been entered into with AEs, is to nullify the impact of interrelationship between the AEs. Accordingly, the taxpayer should have charged interest on the loans advanced to the subsidiaries. Additionally, Delhi Tribunal in case of [12]Perot Systems TSI (India) Ltd held that even if the taxpayer has not earned any "real income", TP provisions would nevertheless apply; if such were not the case, the purpose and intent of Indian TP provisions would stand defeated.

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6 *Development Consultants Private Limited v. Deputy Commissioner of Income Tax (115 TTJ 577)*
7 *Global Vantage Private Limited v. Deputy Commissioner of Income Tax (2010-TIOL-24-ITAT-DEL)*
8 *Ranbaxy Laboratories Ltd v. Assistant Commissioner of Income Tax (299 ITR 175)*
9 *Dana Corporation [AAR no. 788 of 2008]*
10 *Amiantit International Holdings [2010 - TIOL -07 - ARA - IT]*
11 *WF Limited v. Deputy Commisioner of Income Tax [2010 - TIOL - 55 - ITAT - MUM]*
12 *Perot Systems TSI (India) Pvt. Ltd. v. Deputy Commisioner Income Tax [2010 - TIOL - 51 - ITAT]*

It is feared that the Revenue authorities may apply the ratio laid down by the above referred Tribunal Decisions to the companies providing a bank guarantee against a loan taken by a subsidiary abroad without charging any guarantee commission. Consequently, if Indian companies which are not charging commission from overseas subsidiaries for providing bank guarantee, might have to cough up some additional tax for the same.

Recent Developments

Mutual Agreement Procedure:

Majority of the tax treaties entered into by India with the various countries provide for the Mutual Agreement Procedure ('MAP') in respect of tax disputes. MAP, provides for a dispute resolution mechanism where the Competent Authorities of both the countries shall endeavor by mutual agreement to resolve the tax disputes of the tax payers.

It has recently been reported that, pursuant to an MAP, the US and Indian Competent Authorities have proposed to resolve a TP dispute involving provision of intra-group information technology services, by an Indian affiliate to a US multinational enterprises. The proposed resolution involves the Competent Authorities agreeing to accept a mark-up on costs of 18 per cent as the arm's length price as compared to an adjustment in the range of 25-30 per cent made by the Indian revenue authorities. The taxpayers involved have the option to either accept the MAP resolution or follow the course of appeal prescribed under the domestic tax laws.

It is expected that in the coming days there will be more instances of invoking MAP.

Presently, Section 92 prohibits economic adjustment in the case of associated enterprises. In view of the above referred resolution between India and USA for certain class of companies under MAP, tax payers are wondering whether economic adjustment will be allowed in the overseas pursuant to tax treaties.

Introduction of Dispute Resolution Panel :

With Finance Act 2009, came in a welcome change in the area of TP litigation - the new age fast track courts in form of Dispute Resolution Panel ('DRP'). The taxpayer can approach the DRP to file his objections against the Assessing Officer's draft order within one month. The DRP would then, within nine months, make necessary inquiries and issue the directions to the tax officer to finalise the assessment order. This order can then be challenged before the tax tribunal by the taxpayer. However, directions given by DRP will be binding on the tax officer and he cannot file appeal against the same. The DRP is a very important initiative and is conceptually a step in the right direction for speedy and consistent disposal. However, the key lies in intent translating into ground-level action.

Safe Harbour Provisions:

Considering the humungous TP litigations pending before the judiciary in respect of a large number of cross-border transactions, Finance Act 2009 introduced safe harbour rules. Under section 92CB of the Act, the Central Board of Direct Taxes ('CBDT') has been given the powers to formulate 'safe harbour rules' i.e. to provide the circumstances in which the Income-tax authorities shall accept the transfer price declared by the tax payer. The safe harbours may be applicable for a specified category of tax payers with limited exposure to international transaction or it may be applicable to specific nature of transaction like routine services transactions on the lines of the US transfer pricing regulations. It is over a year and tax payers are still waiting for the safe harbour rules. Let's keep our fingers crossed for the same.

The Direct Taxes Code:

Direct Taxes Code ('DTC') proposes to introduce Advance Pricing Agreements ('APAs') that determine, in advance of controlled transactions, an appropriate set of criteria (e.g. method, comparables and appropriate adjustments thereto, critical assumptions as to future events) for the determination of the TP for those transactions over a fixed period of time. The ALP determined under the APA shall be deemed to be the ALP in relation to the international transaction, in respect of which the APA has been entered into and shall be binding on both the taxpayer and the tax authority.

Another salient feature of DTC is that the risk-based assessment will replace the prevailing practice of selection on the basis of quantum (presently limit is INR 150 million) for TP assessment.

Conclusion

It is critical for multinational enterprises with operations in India to plan their business transactions so as to meet the transfer pricing challenges. The introduction of safe harbour regulations and DRP mechanism, MAP and proposed APA, can be viewed as concrete steps towards lifting the clouds of uncertainty and improving the investment climate in the country. However, the success or otherwise of new provisions would largely depend on the how they are implemented and their ability to minimise the tax litigation. ■

Government Plans New Norms to Tax Profits by Indian Firms Abroad

The finance ministry plans to introduce Controlled Foreign Company (CFC) rules to check outbound investment in tax havens for avoiding or deferring tax. The rules will allow authorities to extend domestic laws for taxing profits of Indian subsidiaries abroad. Now, profits made by foreign arms of Indian companies are taxed only when they are distributed through dividend to the parents. Many Indian companies avoid or defer bringing back profits to India and instead, deploy the funds for overseas expansion. This results in delayed or non-payment of tax on profits made by foreign arms. Introduction of CFC rules would require an amendment to the Income-tax Act, 1961. The government can either introduce the rules in the Finance Bill of 2011 or make the provisions in the second draft of the Direct Taxes Code, likely to be released for public discussion this month. A committee under the director general of Income Tax (international taxation) was formed to give its recommendations on taxing income of CFCs to boost the government's revenues. The committee recently submitted its report to Central Board of Direct Taxes (CBDT) Chairman S. S. N. Moorthy.

*(**Source:** www.financialexpress.com)*

Payment Made Abroad Taxable if Deal Has Links With India

The Income-tax department can tax even a payment made to a foreign entity outside India, if the transaction has a business connection within the country, according to a verdict passed by the Income Tax Appellate Tribunal, Mumbai. In this case, the ITAT gave an order favouring the I-T department's decision to levy tax on $1 million (about Rs. 4.5 crore) paid by an Indian company to a Chinese firm for services rendered in China. In order to tax such payments, ITAT held, it is not necessary that the party has a business activity in India (territorial nexus). A division bench of ITAT, comprising Pramod Kumar and R. S. Padvekar, held that tax is payable in India on any income which is either sourced from India or which arises to a person domiciled in India. The ITAT virtually dismissed the theory of territorial nexus, a concept of taxation by which tax is levied in the territory in which business activity took place.

*(**Source:** www.hindustantimes.com)*

Genuine Business Recasts Can Bring in Tax Benefit: ITAT

In a decision that will help corporates restructure businesses, the Chennai bench of Income-tax Appellate Tribunal (ITAT) has held that tax benefit could not be denied to business restructuring, if the exercise fulfills all the conditions mentioned under the Income-Tax Act. The ruling in the case of Chennai-based TVS Motors Company comes as a relief to all corporates which are at dispute with the I-T department for tax benefits denied to genuine amalgamation or business restructuring. Such disputes arise when tax authorities view it as an exercise intended to avoid tax; corporates argue that the restructuring is for business convenience. The case revolved around a composite scheme of arrangement involving TVS Motors, which held over 66% stake in Laxmi Auto Components (LAC). LAC had transferred its rubber and plastic division to another group company, Sundaram Auto (SAC). At the time, the rest of LAC, including the engine components business, investment in SAC and other investments were transferred to TVS Motors. The scheme of rearrangement was cleared by the Madras High Court. However, the assessing officer declined to accept it as an amalgamation on the ground that the full assets and liabilities of LAC were not transferred to TVS Motors, and therefore, do not fulfil the conditions required for tax neutrality of an amalgamation. According to him, the exercise at best could be described as rearrangement under Section 391 to 394 of the Companies Act, and therefore, not an amalgamation. The assessing officer, thus, taxed the capital reserve arising out of amalgamation, disallowed the depreciation claims arising from the transfer of LAC's assets to TVS and also denied the credit for the dividend distribution tax paid by LAC. The ITAT did not accept the I-T department's stand.

*(**Source:** www.thehindubusinessline.com)*

Fashion Designer an Artist, Can Get Tax Rebate: HC

The Bombay High Court has held that a fashion designer is an artist and dismissed the appeal filed by the Income Tax department challenging the tax exemption granted to designer Tarun Tahiliani, on his foreign income under section 80RR of the Finance Act, 1969. A division bench of Justice D. Y. Chandrachud and Justice J. P. Devadhar said that they had concurred with the findings of the Income Tax Appellate Tribunal (ITAT) granting an artist's privilege to Tahiliani. The section 80RR, refers to Indian authors, playwrights, artists, musicians, sportsmen and actors who receive income from foreign parties for their work. In such cases, under section 80RR, 75% of the total income obtained from the foreign government is exempted from tax. Tahiliani had sought a tax exemption under the section 80RR on his declared taxable income. The IT department had argued that Tahaliani is not an artist and supported its claim relying on Wikipedia. Submitting definitions of the words design, art and artist procured from Wikipedia, the IT department's advocate told the court that "design" was applicable to applied arts and not fine arts or performing arts. Tahaliani's counsel, however, argued that person who stitches a dress is not an artist but the one who conceptualises it, certainly is.

*(**Source:** http:www.timesofindia.com)*

IFAC Seeks Views on its 2010-2012 Strategy and Work Plan

The IFAC has recently released for comment an exposure draft (ED) setting out its proposed 2010-2012 strategy and work plan prepared by its Professional Accountants in Business (PAIB) Committee. The proposed plan outlines the direction and priorities of IFAC's services relevant to professional accountants in business. This public consultation is a first-time opportunity for IFAC member bodies and other key stakeholders to comment on the proposed vision, strategic direction, and corresponding work plan for this key constituency. The proposed strategic direction focuses on enhancing the profile, influence, and relevance of professional accountants in business. It stresses increasing awareness of the important roles professional accountants play in creating, enabling, preserving, and reporting value for organisations and their stakeholders; and supporting the professional accountants in business within IFAC member bodies by facilitating the communication and sharing of good practices and ideas.

*(**Source:** http://www.ifac.org/MediaCenter)*

IASB and FASB issue Statement on Their Convergence Work

The IASB and the US Financial Accounting Standards Board (FASB) have recently announced their intention to prioritise the major convergence projects to permit a sharper focus on issues and projects that they believe will bring about significant improvement and convergence between IFRSs and US Generally Accepted Accounting Principles (GAAP). They, in their November 2009 joint statement, had reaffirmed their commitment to improving IFRSs and US GAAP, with June 2011 as the target date for completing the major projects in the 2006 MoU. They recognise the challenges that arise from seeking effective global stakeholder engagement on a large number of projects. They are in the process of developing a modified strategy to take account of these concerns, which retains the target completion date of June 2011 for many of the projects identified by the MoU.

*(**Source:** http://www.iasb.org/News)*

IASB Seeks Comments on FASB Financial Instruments Exposure Draft

The FASB has recently released a proposed Accounting Standards Update (ASU) that contains proposals for a new comprehensive standard on financial instruments. The IASB is asking their constituents to submit comment letters on the FASB proposal. Feedback will be helpful to the FASB when it re-deliberates its proposals and finalises any requirements. The IASB will use that feedback while considering how to reconcile any difference between the IFRS requirements and the US GAAP. Since it is part of the global convergence project, it is important for the FASB to receive feedback on the proposed model from the international community. Under the FASB's proposals, many financial assets and financial liabilities would be measured at fair value in the primary financial statements. Comments should be submitted directly to the FASB by September 30, 2010, by e-mail to director@fasb.org, File Reference No. 1810-100, or, in hard copy to Technical Director, File Reference No. 1810-100, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116.

*(**Source:** http://www.iasb.org/News)*

User Questionnaire for Fair Value Option Exposure Draft

The IASB has recently produced a questionnaire for financial statement users on its May 2010 exposure draft *Fair Value Option for Financial Liabilities.* It has asked analysts to complete the questionnaire in order to provide input on the proposals in the exposure draft on the fair value option. This questionnaire, targeted at analysts, forms part of a comprehensive programme of outreach activities to all IFRS constituents. Responses to the questionnaire must be received by July 16, 2010.

*(**Source:** http://www.iasb.org/News)*

IASB Proposes Improvements to the Presentation of Items of Other Comprehensive Income

The IASB has recently published for public comment proposals to improve the consistency of how items of Other Comprehensive Income (OCI) are presented. The IASB is proposing to require that entities present profit or loss and other comprehensive income in separate sections of a continuous statement. The IASB is also proposing to group items in OCI on the basis of whether they will eventually be 'recycled' into the profit or loss section of the income statement. The proposals have been jointly developed with the US FASB, which is also seeking public comment on changes to the presentation of OCI as part of their financial instruments proposals. If adopted, these proposals will result in further convergence of IFRSs and US GAAP in an increasingly important part of the financial statements. The exposure draft *Presentation of items of Other Comprehensive Income (Proposed amendments to IAS1)* is open for comment until September 30, 2010.

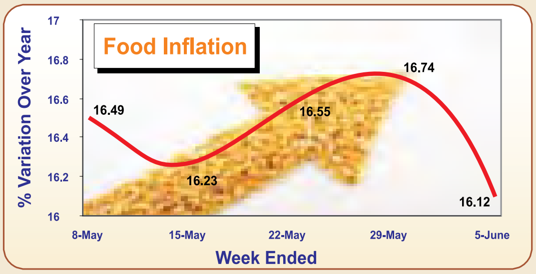
*(**Source:** http://www.iasb.org/News)*

IFRS Interpretations Committee Podcasts for Download

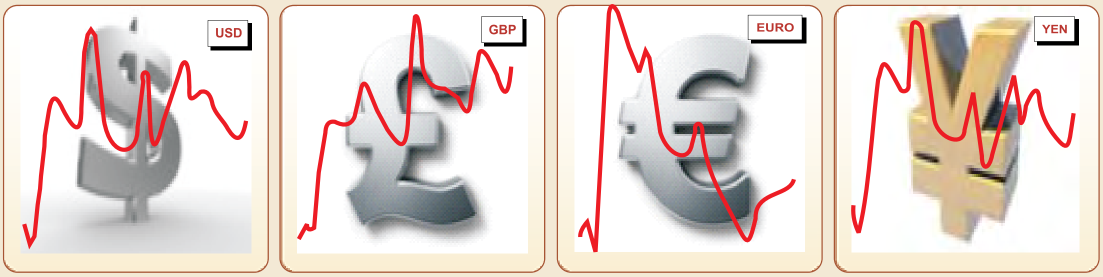
Following on from the success of the Board meeting audio summaries ('podcasts') and from the encouraging responses to this form of communication technology, the IFRS Interpretations Committee (formerly called the IFRIC) is also trialing podcasts. The first two podcasts have now been added to the IASB website. The first podcast gives a short introduction and overview of the Committee's work, and the second podcast provides a brief summary of the decisions made in the last Interpretations Committee meeting that took place in May 2010. Going forward, a podcast will be recorded shortly after each of the Interpretations Committee meetings, providing a short (approximately 30 minutes) summary of the main topics and projects discussed. A link is available on the Board website to listen to these podcasts.

*(**Source:** http://www.iasb.org/News)*

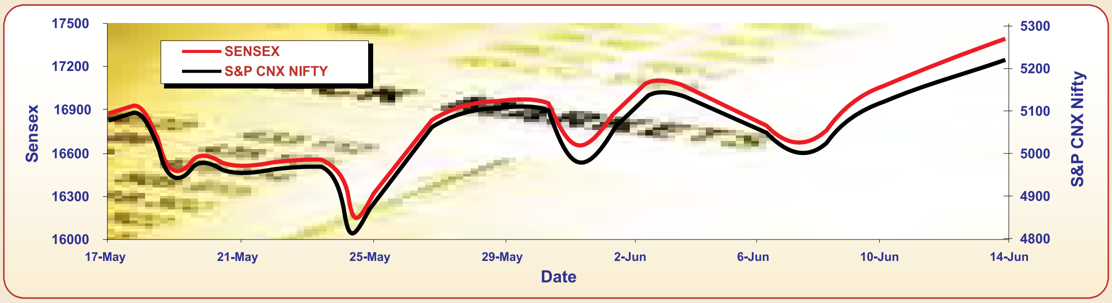
Economic Indicators



Indian Rupee vs. Major Foreign Currencies (May 16, 2010 to June 15, 2010)



Stock Markets



Selected Indicators

Item	Unit/Base	2009	2010					
		Jun. 5	Apr. 30	May 7	May 14	May 21	May 28	Jun. 4
Cash Reserve Ratio	Per cent	5.00	6.00	6.00	6.00	6.00	6.00	6.00
Bank Rate	Per cent per annum	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Prime Lending Rate	Per cent per annum	11.00-12.25	11.00-12.00	11.00-12.00	11.00-12.00	11.00-12.00	11.00-12.00	11.00-12.00
Deposit Rate	Per cent per annum	6.50-8.25	6.00-7.50	6.00-7.50	6.00-7.50	6.00-7.50	6.00-7.50	6.00-7.50
Call Money Rate (Low/High)	Per cent per annum	1.00/3.30	2.20/4.10	2.20/4.50	2.00/4.00	0.30/4.00	2.50/5.00	2.50/5.40

Note: Readers are invited to contribute write-ups or any relevant and interesting piece of information for this feature at eboard@icai.org.

ACCOUNTANT'S BROWSER

'PROFESSIONAL NEWS & VIEWS PUBLISHED ELSEWHERE'

Index of some useful articles taken from Periodicals/Newspapers received during May - June 2010 for the reference of Faculty/Students & Members of the Institute.

1. ACCOUNTING

Changes on Tap for Compilation & Review Standards by Carolyn H. Mcnarney, etc. *Journal of Accountancy*, May 2010, pp.32-36.

Determinants of Corporate Financial Disclosure in an Unregulated Environment : Evidence From the Early 20th Century by Wouter Van Overfelt Van Overfelt, Marc Deloof & Ann Vanstraelen. *European Accounting Review*, Vol.19/1, 2010, pp.7-34.

Employees, Non-Financial Reports & Institutional Arrangements: A Study of Accounts in the Workplace by Thomas Rise Johansen. *European Accounting Review*, Vol.19/1, 2010, pp.97-130.

Rule the World : How Committed is the US to a Global Set of Accounting Standards? by Nick Huber. *Accountancy*, May 2010, pp.25-26.

Transparency & Reporting by Jayne Mammat. Accountancy SA, May 2010.

Yes Minister? Opportunities Abound for Trainee Accountants to Rise Through the Public sector Ranks by Sonia Kenson. Accountancy, May 2010, pp. 60-61.

2. AUDITING

AB Technical Audit Standards: Embracing ISAs by Stuart Hartley. *Accounting & Business*, May 2010, pp.60-62.

Beyond Compliance: The value of SOX by Marianne Bradford. *Strategic Finance*, May 2010, pp.48-53.

Countdown to XBRL by Santhie Goundar. *Accountancy*, May 2010, pp.22-23.

Fraud Deterrence: A Thought Leadership Issue by Werner Bouwer. *Accountancy SA*, May 2010, pp.12-13.

Fraud Due Diligence by Isaiah Nyathi. *Accountancy SA*, May 2010, pp.17.

3. ECONOMICS

Analysis of Managerial Competencies of Bank Branch Managers in India: A Study of Private & Public Sector Banks by Shikha N. Khera & R.K. Mittal. *Management & Change*, Vol. 13/1, 2009, pp.31-44

Application of Multi-Criteria Satisfaction Analysis (MUSA) for Evaluating Microfinance Services in a Meghalaya District by B.K. Barooah. *Management & Change*, Vol. 13/1, 2009, pp. 63-84.

Financial Sector Reforms: Realities & Myths by R.H. Patil. *Eco. & Pol. Weekly*, May 8, 2010, pp.48-61.

4. EDUCATION

Challenges in the Pathways of Effective Implementation of Inclusive Education: The Indian Perspective by Alok Gardia & Jitendra Kumar. University News, May 24-30, 2010, pp.18-23.

Digital-Portfolio Construction Towards Ensuring Quality Education by K. Chellamani. University News, May 10-16, 2010, pp.16-19.

5. INVESTMENT

Beating the Odds When You Launch a New Venture by Clark G. Gilbert & Matthew J. Eyring. *Harvard Business Review*, May 2010, pp.93-98.

Convergence of Financial Market Regulation – The Inevitable by V. R. Narasimhan. *Chartered Secretary*, May 2010, pp.617-620.

6. LAW

CLB Prevents Abuse of Shareholder's Right Under Section 284 of the Companies Act, 1956 by Naresh Kumar. *Chartered Secretary*, June 2010, pp.787-788.

7. MANAGEMENT

Corporate Social Responsibility: A Strategy for Sustainable Business Success. An Analysis of 20 Selected British Companies by Martin Samy, etc. *Corporate Governance*, Vol.10/2, pp.203-217.

Cost & Strategic Management for Growth of SME Sector by Nachiket M. Vechalekar. *The Management Accountant*, May 2010, pp.358-364+369.

8. TAXATION & FINANCE

International Taxation by Mayur B. Nayak, etc. *BCAJ*, May 2010, pp. 63-68.

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

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

CA. M. Devaraja Reddy

CA. Subhash Saraf

CA. Adesh Aggarwal

S.NO	M.NO	NAME OF FIRMS / MEMBERS	AMOUNT (Rs)
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2	026202	CA. M. Devaraja Reddy	1,00,000.00
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100	087130	CA. Rajat Aggarwal	5,000.00
101	087167	CA. Sudhir Kumar	5,000.00
102	096102	CA. Vikas Kumar	5,000.00
103	088142	CA. Balram Nandwani	5,000.00
104	084211	CA. Aroon kumar	5,000.00
105	087063	CA. Suresh Kumar	5,000.00

Invitation to Join CFO Guild/Members in Industry Guild

The Committee for Members in Industry of ICAI maintains two separate guilds as follows:

1. CFOs GUILD(Corporate Accountants Guild)
This guild is for our members who are occupying high positions (CEO/CFO/Treasury Head/Head of Analyst, GM or above) in Industry. The Primary objective of setting up such a guild is to develop a platform where highly intellectual & talented pool of people from various organizations can discuss various issues concerning the profession in general and for Members in Industry in particular.

2. Members in Industry Guild
Members in Industry guild is for our Members serving in Industries. The Primary objective of setting up such a guild is to develop and maintain an industry wise database of the members of our Institute serving in industries.

They can plan, formulate and strategize policies for improving the image of the Chartered Accountants in the eyes of the Industry. Industry specific seminars/Conferences/Round Table meetings can also be organized to discuss the matters pertaining to the industry and make them the Brand Ambassadors of the profession. The Members shall also be apprised of the various happenings of the Institute, from time to time.

Members may also note that their membership must be active in case they want to register in the guild. In case they have not paid fees and are presently not active, they should first pay the fees and revive their membership.

We invite all the members to visit Members in Industry link in the web-site: http://www.cmii.icai.org and register to avail the benefits. Members who are already registered may also update their data in case of any change.

Formation of CPE Study Circles for Members in Industry of ICAI

As you are aware that ICAI has achieved recognition as a premier accounting body not only in the country but also globally, for its contribution in the fields of education, professional development, maintenance of high accounting, auditing and ethical standards.

It is always the endeavour of ICAI to update its members about the changes taking place in various statutes, share the knowledge on various new techniques and sharpen their skills on various professional matters. So, the ICAI in 2008 made Continuing Professional Education mandatory for Members in Industry to earn minimum number of CPE Credit Hours by attending the programmes of academic/professional interest organised by ICAI and its organs.

ICAI has notified the norms for CPE Study Circles, which caters exclusively for the members in service. These CPE Study Circles are being contemplated to help Members in industry to achieve the objectives of maintaining their core competencies and exchange professional knowledge amongst the members apart from fostering and developing fellowship. Please visit **http://www.icai.org/resource_file/15888announ180409.pdf** to see the entire norms of the CPE Study Circle for Members in Industry.

The Committee for Members in Industry (CMII) has been empowered to approve, guide and supervise the CPE Study Circles for Members in Industry, which will conduct Continuing Professional Education Programmes for the Members in industry. The norms provide for the minimum number of members required and the application procedure, rules for functioning, administration and accounts of these CPE Study Circles.

29 CPE Study Circles for Members in Industry have already been formed so far by the CMII.

A separate helpline for forming CPE Study Circle for Members in Industry has been established at the Headquarter of our Institute with Email: **cmii_events@icai.in**, Telephone: 011-30110549 in case you need further details.

We request the members serving in industry to come forward to form CPE study circle in their organisation/locality.

For the Attention of the Members

Consequential Amendment to Audit Documentation Retention Period in Standard on Auditing (SA) 230 (Revised), *Audit Documentation*

The Council of the Institute of Chartered Accountants of India had in August 2009, pursuant to the provisions of Rule 12 of the *Chartered Accountants (Procedures of Investigations of Professional and Other Misconduct and Cases) Rules, 2007* had amended the audit documentation retention period appearing as ten years in paragraph 83 of Standard on Quality Control 1 to seven years.

As a consequence of the above decision of the Council, with the issuance of this announcement by the Auditing and Assurance Standards Board, the audit documentation retention period appearing as ten years in paragraph A23 of the Standard on Auditing (SA) 230 (Revised), *Audit Documentation,* issued in January 2009, shall also stand amended to seven years.

ICAI Job Portal (http://jobs4cas.icai.org)

ICAI Job portal for experienced Chartered Accountants and Accounting Technicians.

Objectives of ICAI Job portal

The ICAI Job Portal is primarily for experienced Chartered Accountants and Accounting Technicians. The said Job Portal has been designed and developed to provide a platform for industry to fill their vacancies and chartered accountants to get fresh jobs. The benefits are as follows:

- **From Members Perspective:**
  a) To cater to the Career Advancement of the members in industry.
  b) To provide a platform for members in practice who wish to switch over to service.
  c) To provide career advancement services throughout the year.

- **From Industry Perspective:**
  a) To reinforce the image of the Institute as partner in Nation Building and to identify itself as a partner in industrial development through the provision of quality professionals.
  b) To provide placement services throughout the year and fill their evolving manpower requirements.
  c) To be a driver to the overall improvement of the various functional area of Industry.
  d) To be a driver to develop world class Indian organisations.

- **Features of the Job Portal**

  Some of the Prominent Features of this portal are as follows:

  For Employers:
  - Hot Vacancy-Premium Job Posting Services
  - Advanced Search Tools
  - Reach through Job Alerts
  - Resume Database Access Subscription
  - Unlimited writing for Job Advertisement
  - Extremely fast display of Job Advertisement
  - Facility to monitor the activities done through the Account.

  For Candidates:
  - Update Alert for CV
  - Job Messenger
  - Email Alerts
  - Resume Building Services
  - Job Search Facility on the Basis of Functional Area, Industry, Experience, Locations, Expected Salary, Job Type, Freshness, etc.
  - Covering Letter Option
  - Hot Employer/Preferred Employer marking facility

The Recruiting organizations as well as the Experienced Chartered Accountants and accounting technicians can avail the benefits of the ICAI Job Portal. In case you need any assistance you may feel free to contact Secretary to CMII at email: placements@icai.org, ssuneja@icai.org, Tel: 011-30110450/491.

Chairman
Committee for Members in Industry

EXAMINATION DEPARTMENT
Important Announcement - Online Examination Application Form

For the attention of the Candidates who aspire to appear in various Chartered Accountancy (CA) Examinations scheduled during November, 2010.

In order to reduce the time taken in processing the OMR application forms and also to ensure accuracy in the data pertaining to Name, Registration No., Group/Centre/ Medium opted, it has been decided to make the filling of Examination Application Forms **Online** at the url http://icaiexam.icai.org/ as the only mode of application for various CA examinations with effect from May, 2011.The OMR format of exam application form will be discontinued effective from May, 2011 examinations. In other words from May, 2011 onwards application forms are required to be filled compulsorily and online. However for November, 2010 CA examinations submission of hard copies of the examination application forms will continue to be an option.

As an incentive for the candidates filling the Online CA examination application forms, the cost of application form of Rs. 100 will be waived off (which is used to be recovered from the candidates submitting the online application forms).

We request the students of the CA Course to utilize this incentive and submit their examination application forms for November, 2010 only through Online mode at the url http://icaiexam.icai.org/. However if it is not at all possible for them to submit the application forms online, they can continue to utilize the paper-pencil mode of application form (this option is available only for the November, 2010).

(G. Somasekhar)
Addl. Secretary (Exams)

Invitation for Articles on XBRL

To encourage and promote XBRL, ICAI has established XBRL India, i.e., the local jurisdiction of XBRL. XBRL, i.e., eXtensible Business Reporting Language is a novel platform for electronic communication of financial and business data. Developed by an international not-for-profit consortium, XBRL provides several benefits to those dealing with financial data such as chartered accountants, regulators, financial analysts, etc.

To create awareness about XBRL by developing a pool of knowledge and sharing it, ICAI invites articles on XBRL from members and others with knowledge/experience in XBRL for publishing in the Chartered Accountant Journal. Articles may pertain to relevant topics such as the basics of XBRL; its benefits and uses to various users such as chartered accountants, banks, income-tax department, financial analysts, and others; challenges in implementing XBRL, etc.

The articles submitted should not exceed 5,000 words and every article should have an executive summary of about 150 words; author's brief profile, e-mail ID, postal address and contact numbers along with a passport size photograph (scanned for e-mail). Authors may note that they are also required to send a declaration about the originality of the article, without which the article will not be considered by the Editorial Board of ICAI. The final decision on publication of the content is taken by the Editorial Board and Rs. 5,000 shall be paid as honorarium for an article published. The authors are advised to refer to the 'Guidelines for the Authors of the Chartered Accountant Journal' which are available at ICAI website. The articles can be sent by e-mail at eboard@icai.org/Journal@icai.org or by post to –

The Editor,
The Chartered Accountant,
Journal Section
The Institute of Chartered Accountants of India
ICAI Bhawan
A 94/4, Sector 58,
Noida – 201301

Classifieds

4800 Wanted by CA Firm having offices at Raipur, Bhubaneswar, Berhampur, Rourkela & Bolangir.CA/Inter CA/Audit Assistant. Candidate should have sufficient experience in Audit/Accounting/Taxation Work. Salary no constraint. Apply with bio-data: M/s. O.M. Kejriwal & Co. Chartered Accountants, Plot No. A 17/10, Surya Nagar, (Near S.P. Vigilance Office) Bhubaneshwar-751003. Tel.:0674-2397227/025/890. E-mail: omkandco@gmail.com

4801 Saurashtra based CA firm having 10 years experience seekes work on Assignment/Retainership/Sub-Contract basis. Contact : 9824230485 email saurashtraca@rediffmail.com

4802 A Chartered Accountant worked for three years in Internal Audit Department of the Company After retirement wish to serve in Chartered Accountant firm on Part time/ full time, at Visakhpatnam only. Contact Details: Mobile Number: 9676118227.

4803 Required Chartered Accountants on partnership/ assignment/retainership/sub- contract / employment basis, semi- qualified and articled assistants (for the state of Jammu & Kashmir)/ Northern States. Apply box: 4803, C/o Journal Section, The Institute of Chartered Accountants Of India, ICAI Bhawan, A-94/4, Sector-58, Noida-201301.

4804 A Delhi based CA, in practice for more than 35 years, wants to merge in established CA firm of Delhi, with good infrastructure & impressive profile, on very favourable terms to that firm. Email: seegodasthedoer@gmail.com

New Publication

Issues in Public Finance

Public Finance is that part of finance which hovers around the central question of allocation of resources subjected to the budget constraint of the government or public entities. It is that branch of economics, which identifies and appraises the means and effects of the policies of the government. Public sector finance tries to examine the effects and consequences of different types of taxation and expenditures on the economic agents (individuals, institutions, organizations, etc.) of the society and ultimately on the entire economy. Public finance also analyzes the effectiveness of the policies aimed at certain objectives and consequently to the development of procedures and techniques for increasing the effectiveness of the policy.

The Committee on Public Finance & Government Accounting of ICAI is coming up with a Publication on **"Issues on Public Finance"** with a view to provide explicit guidance on Public Finance issues such as Fiscal Policy-Relevance & Realism, Direct & Indirect Tax Structure in India, Fiscal Responsibility & Budget Management Act-A Study of Centre & State Fiscal Position, Public Expenditure Control Measures in India-Policy Implications & Emerging Issues and External Debt in India.

Price: Rs. 125/-

Postal charges: Rs. 19/- (plus Rs. 17/-, if required by registered parcel)

Available at: Sale counters of The Institute of Chartered Accountants of India at New Delhi, Chennai, Mumbai, Kolkata and Kanpur. Copies can also be obtained by post. To order by post, send your request along with a demand draft of the amount of the price of the publication plus the postal charges in favour of "The Secretary, The Institute of Chartered Accountants of India", payable at New Delhi, to the Postal Sales Department, The Institute of Chartered Accountants of India, ICAI BHAWAN, A-94/4, Sector 58, Noida-201 301-(U.P.)

Breach of Regulations 65 & 78 – Non-Submission of Form 112

Further to our announcement dated 8th January, 2010, the appropriate Committee of the Institute in its recent meeting in view of the difficulties being faced by students decided that the following course of action be adopted for dealing with the cases of condonation of Regulation 65 w.e.f. 1st April, 2010:

Nature of breach	Condition(s) to be complied with
One course at a time as a private or distance mode/ Correspondence student alongwith Articleship	Condone the breach of Regulation 65 and enroll after one month from the date of the receipt of Form 2 or when compliance is made, whichever is later.
Two courses at a time as a private or distance mode/ Correspondence student alongwith Articleship	Condone the breach of Regulation 65 and enroll after three months from the date of the receipt of Form 2 or when compliance is made, whichever is later.
One course at a time as a regular day time (morning/evening) student with Articleship (with no overlapping of office and teaching hours)	Condone the breach of Regulation 65 and enroll after six month from the date of the receipt of Form 2 or when compliance is made, whichever is later.
One or more courses at a time as a regular day time student alongwith Articleship (where overlapping between office and teaching hours)	Condone the breach of Regulation 65 only after the conduct of enquiry under Regulation 66 and the decision taken thereon.

It is also clarified that the cases for condonation of breach of Regulation 65 and 78 received upto 31st March, 2010 would be dealt with in terms of the Announcement dated 8th January, 2010 i.e. general amnesty.

Deputy Director (MSS)
15th June 2010

CPE 12 Hours

National Seminar on 'Way to Professional Development - Direct Taxes and Company Law'

Organised by: Professional Development Committee & SIRC of ICAI
Hosted by: Hubli Branch of ICAI

Date and Time	**Venue**	**Inaugural Session**
10th July, 2010 10:00 a.m. - 6:00 p.m. 11th July, 2010 10:00 a.m. - 6:00 p.m.	Shri D. Veerendra Heggade Kalaksetra, P.B. Road, Hubli, Dharwad	• Inaugural Address: CA.G.Ramaswamy, Vice President, ICAI
	Day 1 : 10th July, 2010	
Technical Sessions	**Topics**	**Speakers**
	Evolution of Hindu Law and Taxation	CA. A. Shankar, Bangalore
	Critical Issues in Capital Gains	CA. T. Bhanushekar, Chennai
	Professional opportunities for Chartered Accountants	CA. K. Raghu, Member, Central Council, ICAI
	FEMA and PMLA - Practioners Approach	CA. PVR Rajendra Prasad, Hyderabad
	Day 2 : 11th July, 2010	
	Topics	**Speakers**
	Interested Party Transactions under Companies Act 1956	Sri B. Ravi, Chennai
	Corporate Frauds and Forensic Audit	CA. Chetan Dalal, Mumbai
	New Professional opportunities in IFRS Convergence	CA. P. R. Ramesh, Mumbai
	Panel Discussion on 'Professional Opportunities sans Legal Protection'	**Panelists:** • CA. Sunil Talati, Past President, ICAI • CA. R. Bupathy, Past President, ICAI • CA. Venugopal C. Govind, Kochi
Highlights	10th July, 2010 - Musical Show and Orchestra by Klub Nostalgia (7:00 p.m. to 9:00 p.m.)	
	11th July, 2010 - Spiritual Session by Poojya Sri Sideshwar Swamiji (9:00 a.m. to 10:00 a.m.)	
	Contact Details	
Programme Chairman CA. Pankaj Jain Chairman, Professional Development Committee of ICAI ✉ pankaj@icai.org	**Programme Co-ordinator** CA. K. Raghu Central Council Member, ICAI ✉ kraghu9999@gmail.com	**Programme Convenor** CA. S. R. Bhandiwad Chairman, Hubli Branch of SIRC ☎ +91-9880817939 ✉ icaihubli@sify.com
Participation fee	**Members** : Rs. 2,000/- per delegate	
	Non Members : Rs. 2,500/- per delegate	
	CA Students : Rs. 1,000/- per delegate	

Cheque should be drawn in favour of **'Hubli Branch of SIRC of ICAI'** payable at Hubli and sent to The Chairman, Hubli Branch of SIRC of ICAI, ICAI Bhawan, Madhura, Chetna Colony Keshwapur, Kusugal Road, Hubli- 580 023
For any query, you may please contact Hubli Branch; ☎ +836 - 2288337,2283081; ✉ icaihubli@sify.com

CPE 6 Hours

Workshop on Service Tax and GST

Organised by: Committee for Members in Industry of ICAI
Hosted by: Eastern India Regional Council of ICAI On 16th July, Friday 2010 in ICAI Bhawan, Russel Street, Kolkata

Topics	• Issues in Coverage [Levy] and classification • Scope of Taxability and Maxim of Interpretation • Value addition through Credit & Issues • Issues in Import of Service • Practical issues on export of Service (Including Refunds) • Issues in Real Estate (Construction and Renting Works Contract) • Opportunities in GST	
Speakers	CA. Madhukar Hiragange, Bangalore CA. Ravi Holani, Gwalior There will also be other eminent speakers.	
Participation Fees	Rs. 800/- The cheque should be drawn in favour of `Institute of Chartered Accountants of India' payable in Kolkata.	
Contact Details		
Programme Chairman CA. Subodh Kumar Agrawal Chairman Committee for Members in Industry of ICAI ☎+91-9830022848 ✉ subodhka@yahoo.com	**Programme Director** CA. Sumantra Guha Central Council Member ICAI ☎+91-09831015331 ✉ oisuad@vsnl.net	**Programme Coordinator** CA. Krishanu Bhattacharyya Chairman EIRC of ICAI ☎+91-09831208273 ✉ krishanu_b@rediffmail.com
Official Coordinators	Shri Shaleen Suneja, Secretary, Committee for Members in Industry, ☎+011-30110491/555, ✉ cmii@icai.in Shri Abhijit Basu, Deputy Secretary, EIRC of ICAI ☎+033- 30211132, ✉ eircevents@icai.in	
For registration and further details, please contact	EIRC of ICAI, ICAI Bhawan, 7, Anandilal Poddar Sarani (Russell Street), Kolkata – 700 071. ☎+033- 30211132/ 33/ 04, ✉ eircevents@icai.in Cheque should be sent to this address.	

CPE 6 Hours

Workshop on Service Tax and GST

Organised by: Committee for Members in Industry of ICAI
Hosted by: Siliguri Branch of EIRC of ICAI On 17th July, Saturday 2010 at ICAI Bhawan, Near Over bridge, Tinbatti More, Siliguri

Topics	• Basic Issues in Service Tax Laws (Credit, Valuation) • Initial Advice – Methodology [Registration (Levy & classification)] • Issues in Logistics/ Movement (GTA, C & F, CHA Legal fee) • Interactive session on Law/Practice • Opportunities in GST	
Speakers	CA. Madhukar Hiragange, Bangalore There will also be other eminent speakers.	
Participation Fees	Rs. 500/- The cheque should be drawn in favour of `Siliguri Branch of EIRC of ICAI' payable at Siliguri.	
Contact Details		
Programme Chairman CA. Subodh Kumar Agrawal Chairman Committee for Members in Industry of ICAI ☎+91-9830022848 ✉ subodhka@yahoo.com	**Programme Convenor** CA. Alok Roy Chairman Siliguri Branch of EIRC of ICAI ☎+91-9932808565 ✉ oisuad@vsnl.net lahotiroy@gmail.com	
Official Coordinator	Shri Shaleen Suneja, Secretary, Committee for Members in Industry, ☎+011-30110491/555, ✉ cmii@icai.in	
For registration and further details, please contact	Siliguri Branch of EIRC of the Institute of Chartered Accountants of India, Near Overbridge, (Teen batti More), Siliguri - 734 405. ☎+91- (353) 2560445 ✉ siliguri@icai.org Cheque should be sent to this address.	

CPE 12 Hours

Two Day National Conference at Chennai

Saturday and Sunday, July 17 and 18, 2010

The Committee on Economic, Commercial Laws & WTO is organising a two Day National Conference on Saturday and Sunday, July 17 and 18, 2010 at IMAGE Auditorium, MRC Nagar, R.A. Puram, Chennai – 600028. The Conference would be hosted by SIRC of ICAI. The topics likely to be discussed are: Taxation of Special Economic Zones and Units in SEZ, Goods & Service Tax – How prepared are we, Issues in Tax Deducted at Source, CENVAT Credit & Service Tax, AML/CFT Compliance under PMLA for Financial Sector, Tax Audit under 44 AB of Income Tax Act – A Refresher and Opportunities in Commercial, Economic Laws & WTO.

The participation fee is Rs.1,800/- (Members), Rs.900/-(ARS Members), Rs.2,500/- (Non-Members). 12 CPE hours Credit would be given to the members. For registration and other details please contact SIRC 044-30210320 / 321 / 323 or e-mail to sirc@icai.in, cecl@icai.in , ctlwto@icai.org or visit the website www.icai.org.

CPE 12 Hours

TWO DAYS CONFERENCE ON EXCELLENCE IN AUDIT AND FINANCIAL REPORTING

Organised by: Auditing and Assurance Standards Board and Financial Reporting Review Board, ICAI
Hosted by: Udaipur Branch of CIRC of ICAI

Timing of Sessions	Details
Day 1	**24th July 2010, Saturday**
9:00 a.m – 9:30 a.m. 9:30 a.m. - 10:00 a.m.	Registration Inaugural Session Address by CA. G. Ramaswamy, Vice President, ICAI Special address by CA. Amarjit Chopra, President, ICAI
Technical Session I	
10:00 a.m. – 12:00 noon	Common discrepancies in financial statements including audit reports (CA. Jaydeep N. Shah, Nagpur)
12:00 noon – 1:30 p.m.	Best Practices in Audit Reporting (CA. Abhijit Bandyopadhyay, Kolkata)
Technical Session II	
2:15 p.m. – 4:15 p.m.	Interpretation of Law Deeds and Documents (CA. Ravindra Holani, Gwalior)
4:30 p.m. – 6:00 p.m.	Overview of Standards in Auditing (CA. Abhijit Bandyopadhyay, Kolkata)
	25th July, 2010 , Sunday
Technical Session III	
10:00 a.m. – 11:00 a.m.	Certification Work – Key Issues (CA. Rajendra Kumar P, Chennai)
11:00 a.m. – 12:00 noon	Special Considerations in Audit of Public Sector Enterprises and Government Departments (CA. Ravindra Raniwala, Jaipur)
12:00 noon – 01:00 p.m.	Key Issues in Concurrent Audit (CA. Rishabh Verdia, Jaipur)
Technical Session IV	
2:00 p.m. – 3:00 p.m.	Key Issues relating to Tax Audit (CA. Arvind Shah, Jaipur)
3:15 p.m. – 4:15 p.m.	Key Issues relating to CARO, 2003 (CA. Rajeev Sogani, Jaipur)
Conference Chairman	CA. Abhijit Bandyopadhyay, Central Council Member (Kolkatta) and Chairman, Auditing and Assurance Standards Board ☎ +91- 9831059999 ✉ babhijit@deloitte.com, banabhijit@hotmail.com
Conference Director	CA. Ravi Holani, Central Council Member ☎ +91- 9425109183. ✉ caraviholani@gmail.com, raviholani@rediffmail.com
Conference Coordinator	CA. Sangeeta Bordia, Chairperson, Udaipur Branch of CIRC of ICAI ☎ +91- 09414168136. ✉ udaipur@icai.org, ssaca1998@gmail.com
Participation fees	Rs. 1,100/- for members if registration is on or before 23.07.2010 Rs. 1,250/- for members if on the spot registration
	The cheques/ Demand Drafts should be drawn in favour of “Udaipur Branch of CIRC of ICAI” payable at Udaipur. The cheque should be sent to ICAI Bhawan, G – Block, sector-14, Hiran Magri, Udaipur – 313 001, Rajasthan. Please mention your name, membership no., contact number and place at the back of the cheque/ demand draft. Limited seats, registration on first come, first serve basis.

CPE 12 Hours

TWO DAYS NATIONAL WORKSHOP

Organised by: Committee for Members in Industry of ICAI
Hosted by: Moradabad Branch of CIRC of ICAI on 27th and 28th August 2010 in Moradabad (Friday, Saturday)

Topics	• Common Discrepancies in financial Statements including Audit Report. • Best Practices in Financial Reporting. • Interpretation of Law, Deeds and Documents. • Professional Opportunities for members.	• Certification Work and Financial Reporting at PSUs. • Code of Ethics and disciplinary mechanism of ICAI. • Key Issues in Concurrent/ Internal Audit. • Key Issues relating to Tax Audit. • Key Issues relating to CARO.
Participation Fees	Rs. 1,200/- (The cheque should be drawn in favour of `Moradabad Branch of CIRC of ICAI' payable at Moradabad.)	
Contact Details		
Programme Chairman CA. Subodh Kumar Agrawal Chairman Committee for Members in Industry of ICAI ☎ +91-9830022848 ✉ subodhka@yahoo.com	**Programme Director** CA. Ravindra Holani, Members of Committee for Members in Industry, ☎ +91-09425109183 ✉ raviholani@rediffmail.com	**Programme Coordinator** CA. Pankaj Agarwal Chairman Moradabad Branch of CIRC of ICAI ☎ +0591- 2410142, ✉ moradabad@icai.org
For Registration and further details, please contact	Moradabad Branch of CIRC of ICAI, Neel Kanth Colony, Behind P.M.S. School, Civil Lines, Moradabad. ☎ 0591- 2410142 ✉ moradabad@icai.org Cheque should be sent to this address.	

CPE 6 Hours

WORKSHOP ON DIRECT & INDIRECT TAXES

Organised by: Commitee for Members in Industry of ICAI
Hosted by: Cuttack Branch of EIRC of ICAI
3rd July, 2010 (Saturday), Hotel Grand Residency, Link Road, Cuttack

Timing of Sessions	Details
9.30 am - 10.00 a.m. 10.00 a.m. - 10.30 a.m.	Registration Inaugural Session
Technical Session I	
10.30 a.m. - 2.00 p.m.	Discussion on Revised Direct Tax Code and Open House discussion on practical problems under OLTAS and assessment under E Filing
Technical Session II	
2.30 p.m. - 5.30 p.m.	Service Tax on Builders and Works Contract
Participation Fees	Rs. 600/- per member

Cheque/DD should be drawn in favour of "Cuttack Branch of EIRC of ICAI" and sent to Plot No. 8-4-1/521, Sector - 8, CDA, Bidanasi, Cuttack - 753 014 and ☎ (+91) (671) 2505348, 2506348 ✉ cuttack@icai.org, cuttack.icai@gmail.com,
Limited Seats. Registration on First Come First Serve Basis. Advance confirmation of registration is required

Contact Details

Programme Chairman CA. Subodh Kumar Agrawal Chairman, Committee for Members in Industry of ICAI ☎ +91- 9830022848 ✉ subodhka@yahoo.com	**Programme Coordinator** CA. Sachin Udaypuria, Chairman, Cuttack Branch of EIRC of ICAI ☎ +91- 09338112048 ✉ cuttack@icai.org
Contact for details	CA. Rajkumar Routray, Secretary, Ph: 9437961710 CA. Rajesh K. Agarwal, Treasurer, Ph: 9861207210

CPE 12 Hours

TWO DAYS NATIONAL CONFERENCE ON FINANCIAL REPORTING AND PROFESSIONAL ETHICS

Organised by: Ethical Standard Board of The Institute of Chartered Accountants of India
Hosted by: Allahabad Branch of CIRC of ICAI, on 7th and 8th August, 2010

Timing of Sessions	Details
	Saturday 07.08.2010
9:30 a.m. - 10:00 a.m. 10:00 a.m. - 11:00 a.m.	Registrations Inaugural Session
Technical Session I	
11:00 a.m. - 1:00 p.m.	Common Discrepancies in Financial Statements including Tax Audit Report by CA. Jaydeep Shah-Central Council Member, Nagpur.
Technical Session II	
1:30 p.m. - 3:30 p.m.	Interpretation of Law, Deeds and documents by CA. Ravi Holani, Gwalior.
Technical Session III	
3:45 p.m. - 5:45 p.m.	Assessment of Business Income by CA. Mahesh Sarda, Rajkot.
	Sunday 08.08.2010
Technical Session IV	
10:15 a.m. - 12:15 p.m.	Strategic planning for development of small and medium CA firm by CA. Nilesh Vikamsey, Mumbai.
Technical Session V	
1:00 p.m. - 3:00 p.m.	Issues related to TDS and Tax Audit by CA. Naveen Gupta, New Delhi.
Technical Session VI	
3:15 p.m. - 5:15 p.m.	Code of Ethics-Contemporary Issues by CA. Jaydeep Shah, Nagpur.
Participation fees	Rs. 1,500/- for Members.
	The cheque should be drawn in favour of "Allahabad Branch of CIRC of ICAI" payable at Allahabad and cheque should be sent to 'ICAI Bhawan', Tulsiani Plaza, 2nd Floor, M. G. Road, Civil Lines, Allahabad. Limited Seats, Registration on **First come First Serve Basis.**
	Contact Details
Conference Chairman	CA. Ravi Holani - Member - Financial Reporting & Review Board ☎ +91- 9425109183, 9425307510. ✉ raviholani@rediffmail.com, reviholani@yahoo.co.in
Conference Co-ordinator	CA. Peeyush Keshwani, Chairman, Allahabad Branch of CIRC of ICAI, ☎ +91- 9415235737 ✉ peeyushk@rediffmail.com
Official Co-ordinator	N.P. Singh, Secretary, Ethical Stadnard Board, ICAI, New Delhi, ☎ +91- 9350799917 ✉ npsingh@icai.org.esb@icai.org
For registration and further details please contact	CA. Peeyush Keshwani, Chairman - Allahabad branch of CIRC of ICAI, ☎ +91- 9415235737 ✉ peeyushk@rediffmail.com

CROSS WORD 049

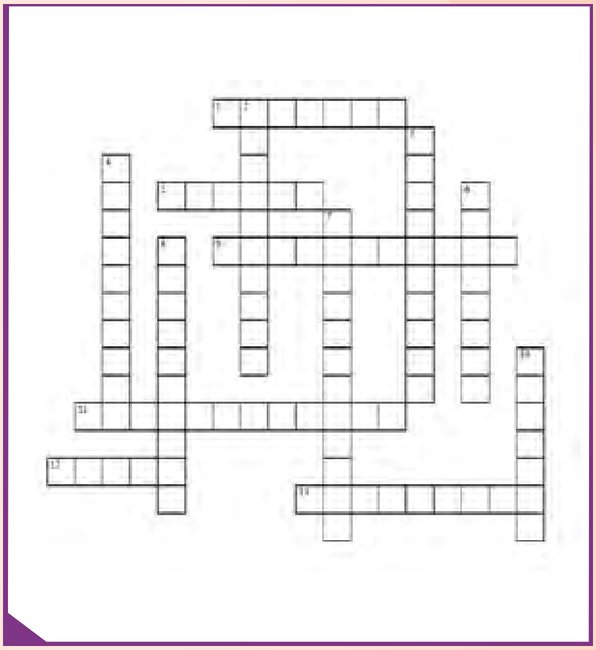
ACROSS

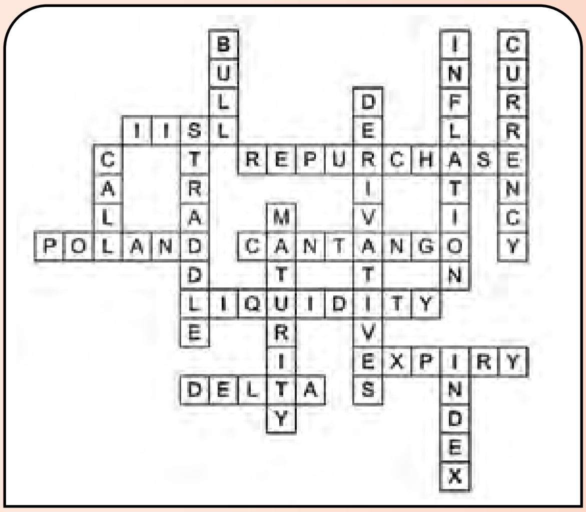
1. First meeting of the Council of the ICAI was addressed by ________. (1,1,5)
5. First coins of the world were issued by the _______ living in Lydia. (5)
9. According to Hindu mythology who keeps the records of the actions et. al. like forms from birth to death. (11)
11. Personal record of Jahangir which provide the references of *tamgha* (a transit/custom duty). (12)
12. Mr. G. P. Kapadia, First President of the ICAI was the nominee of which organisation on the Indian Accountancy Board.
13 Indian system of book-keeping. (4,5)

DOWN

2. Foundation stone of the building of the Institute was laid by __________. (1,1,8)
3. Who had written *Arthasastra* around 4th century BC? (10)
4. _________ the founder of modern mathematics, discovered the value of π (pi). (10)
6. Secretary of the first Indian Accountancy Board set up in 1932. (1,1,6)
7. 18th and final meeting of the Indian Accountancy Board which decided to designate all accountants of India as *Chartered Accountants* was presided by ___________. (1,11)
8. President of the Legislative Assembly where debate was held for the designation 'Chartered'. (5,5)
10. One of the five nominated members of the first Council of the Institute. (1,1,5)

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 048

1 A man is driving down a road, when he spots a farmer standing in the middle of a huge field of grass. He pulls the car to the side of the road and notices that the farmer is just standing there, doing nothing, looking at nothing.
The man gets out of the car, walks all the way out to the farmer and asks him, "Excuse me gentleman, what are you doing?"
The farmer replies, "I'm trying to win a Nobel Prize."
"How?" asks the man, puzzled.
"Well I heard they give the Nobel Prize to people who are outstanding in their field."