

Explanatory Memorandum to the Exposure Draft Revised Standard on Auditing (SA) 600 Special Considerations - Audits of Group Financial Statements (Including the Work of Component Auditors)

Background

The Institute of Chartered Accountants of India had in April, 1995* issued the Auditing and Assurance Standard (AAS) 10, "Using the Work of Another Auditor". The AAS 10 was effective for all audits commencing on or after 1st April, 2002. The Institute being a member of the International Federation of Accountants (IFAC), as a part of its membership obligations, while formulating any Auditing and Assurance Standard is required to harmonise with the corresponding International Standards on Auditing (ISAs), if any, issued by the International Auditing and Assurance Standards Board (IAASB) of the IFAC. The AAS 10 was, therefore, based on the corresponding International Standard on Auditing (ISA) 600 of the same name issued by the International Auditing and Assurance Standards Board (IAASB).

IAASB's Clarity Project

The IAASB in October 2007 issued the **revised and redrafted** ISA 600 written pursuant to the style adopted under the Clarity Project. As a part of its Clarity Project, an International Standard on Auditing is divided into two sections, one the Requirements part containing the fundamental principles of the Standard and second, the Application and Other Explanatory Materials section and Appendices, detailing the implementation aspects of the principles. Attention of the readers is also drawn to, "A Guide for National Standard Setters that Adopt IAASB's International Standards but Find it Necessary to Make Limited Modifications"¹, issued by the IAASB in July, 2006.

ICAI's Response

The Council of the Institute, at its 267th meeting held in April 2007 has also decided to adopt this

approach for writing Standards. The Council, at the said meeting, also decided to rename, re-categorise and re-number the existing Auditing and Assurance Standards on the lines followed by the IAASB. The readers are also requested to refer to the **Preface to the Standards on Quality Control, Auditing, Review, Other Assurance and Related Services**² published in the July, 2007 issue of the Journal.

Highlights of the New Preface

I. Engagement Standards

The new Preface introduces the concept of Engagement Standards. The term "Engagement Standards" comprises the following Standards:

- (a) **Standards on Auditing (SAs)**, to be applied in the audit of historical financial information.
- (b) **Standards on Review Engagements (SREs)**, to be applied in the review of historical financial information.
- (c) **Standards on Assurance Engagements (SAEs)**, to be applied in assurance engagements, dealing with subject matters other than historical financial information.
- (d) **Standards on Related Services (SRSs)**, to be applied to engagements involving application of agreed upon procedures to information, compilation engagements, and other related services engagements, as may be specified by the ICAI.

The new Preface therefore, does away with the terminology "**Auditing and Assurance Standards**" in use till date.

The **Standards on Quality Control (SQC)s** are to be

* Revised in September, 2002

¹ The full text of the Policy Position can be downloaded free of charge at http://www.ifac.org/IAASB/downloads/Modification_Policy_Position.pdf.

² The full text of the Preface can be downloaded free of charge at <http://www.icaai.org/icaairoot/announcements/announ1050.pdf>

applied to all services covered by the Engagement Standards.

II. Standards on Auditing

The Standards on Auditing (SAs) referred to in I. above are formulated in the context of an audit of financial statements by an independent auditor. They are to be adapted as necessary in the circumstances when applied to audits of other historical financial information.

III. New Format of Presenting the Standards on Auditing

In line with the format adopted by the IAASB under its Clarity Project, the Standards on Auditing would now contain two distinct sections, one, the Requirements section and, two, the Application Guidance section.

Requirements Section

The fundamental principles of the Standard are contained in the Requirements section and represented by use of "shall". Hitherto, the word, "should" was used in the Standards, for this purpose. Further, this format also does away with the need to present the principles laid down by the Standard in bold text.

Application and Other Explanatory Material

The application and other explanatory material contained in an SA is an integral part of the SA as it provides further explanation of, and guidance for carrying out, the requirements of an SA, along with the background information on the matters addressed in the SA. It may include examples of procedures, some of which the auditor may judge to be appropriate in the circumstances. Such guidance is, however, not intended to impose a requirement.

In view of this format of writing, the standard portion or principles enunciated in a Standard are no longer given in **bold face**.

The new presentation format is, however, not as yet being followed in drafting the Standards on Quality Control and other Standards.

The Preface also contains the principles as to when a Standard on Auditing would be inapplicable as also the reporting responsibilities of the members

in case of non-compliance with any of the Standards.

There is no change in the authority attached to the Standards, i.e., they are mandatory in nature, notwithstanding the new format of writing the Standards.

This Exposure Draft

This Exposure Draft of the **Revised** Standard on Auditing (SA) 600³, "Special Considerations - Audits of Group Financial Statements (Including the Work of Component Auditors)", is based on the Revised and Redrafted ISA 600 issued by the IAASB in October, 2007 and follows the same writing style. The first, i.e., the Introduction and Requirements section contains the principles. The second, i.e., the Application and Other Explanatory Material section contains implementation guidance on the topics discussed in the Requirements section. Cross-reference to the relevant paragraphs of the Application Material is built within the Requirements section. The paragraphs in the Requirements section have been numbered as 1 to 50, whereas the paragraphs in the Application and Other Explanatory Material are numbered as A1 to A66.

Topics Covered by Revised SA 600

The Standard contains the following main aspects:

- (i) Scope
- (ii) Effective Date
- (iii) Objectives
- (iv) Definitions
- (v) Requirements
 - a. Responsibility
 - b. Acceptance and Continuance
 - c. Overall Audit Strategy and Audit Plan
 - d. Understanding the Group, Its Components and Their Environments
 - e. Understanding the Component Auditors
 - f. Materiality

³ Revises the existing Auditing and Assurance Standard (AAS) 10, "Using the Work of Another Auditor".

- g. Responding to Assessed Risks
 - h. Consolidation Process
 - i. Subsequent Events
 - j. Communication with the Component Auditor
 - k. Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained
 - l. Communication with Group Management and Those Charged with Governance of the Group
 - m. Documentation
- (vi) Application guidance on the above aspects.

Highlights of Revised SA 600

1. Component is an entity or business activity for which group or component management prepares financial information that should be included in the group financial statements.
2. Component auditor is an auditor who, at the request of the group engagement team, performs work on financial information related to a component for the group audit.
3. Group financial statements are the financial statements that include the financial information of more than one component.
4. A component auditor may be required by statute, regulation or for another reason, to express an audit opinion on the financial statements of a component. The group engagement team may decide to use the audit evidence on which the audit opinion on the financial statements of the component is based to provide audit evidence for the group audit, in which case the requirements of this SA shall apply.
5. The group engagement partner is responsible for the direction, supervision and performance of the group audit engagement in compliance with professional standards and regulatory and legal requirements. As a result, the auditor's report on the group financial statements shall not refer to a component auditor, unless required by law or regulation to include such reference.
6. Where component auditors will perform work on the financial information of significant components, the group engagement partner shall evaluate whether the group engagement team will be able to be involved in the work of those component auditors to the extent necessary to obtain sufficient appropriate audit evidence.
7. The group engagement team shall establish an overall group audit strategy and shall develop a group audit plan.
8. The group engagement partner shall review the overall group audit strategy and group audit plan.
9. The group engagement team shall obtain an understanding that is sufficient to:
 - (a) Confirm or revise its initial identification of components that are likely to be significant; and
 - (b) Assess the risks of material misstatement of the group financial statements, whether due to fraud or error.
10. When the group engagement team plans to request a component auditor to perform work on the financial information of a component, the group engagement team shall obtain an understanding of the independence and professional competence of the component auditor.
11. The group engagement team shall determine:
 - (a) The materiality level for the group financial statements as a whole.
 - (b) The specific materiality levels for particular classes of transactions, account balances or disclosures in the group financial statements for which misstatements of lesser amounts than the materiality level for the group financial statements as a whole.
 - (c) Component materiality for those components where component auditors will perform an audit or a review for purposes of the group audit.
 - (d) The threshold above which misstatements cannot be regarded as

- clearly trivial to the group financial statements.
12. When a component auditor performs an audit of the financial information of a significant component, the group engagement team shall be involved in the component auditor's risk assessment to identify significant risks of material misstatement of the group financial statements.
 13. The group engagement team shall evaluate the appropriateness, completeness and accuracy of consolidation adjustments and reclassifications, and shall evaluate whether any fraud risk factors or indicators of possible management bias exist.
 14. The group engagement team or the component auditors shall perform procedures designed to identify events at those components that occur between the dates of the financial information of the components and the date of the auditor's report on the group financial statements, and that may require adjustment to or disclosure in the group financial statements.
 15. The group engagement team shall communicate its requirements to the component auditor on a timely basis. This communication shall set out the work to be performed, the use to be made of that work, and the form and content of the component auditor's communication with the group engagement team.
 16. If the group engagement team concludes that the work of the component auditor is insufficient, the group engagement team shall determine what additional procedures are to be performed, and whether they are to be performed by the component auditor or by the group engagement team.
 17. The group engagement team shall communicate with those charged with governance of the group on a timely basis and at an appropriate level of responsibility.
 18. The group engagement team shall document the following matters:
 - (a) An analysis of components, indicating those that are significant, and the type of work performed on the financial information of the components.
 - (b) The nature, timing and extent of the group engagement team's involvement in the work performed by the component auditors on significant components including, where applicable, the group engagement team's review of relevant parts of the component auditors' audit documentation and conclusions thereon.
 - (c) Written communications between the group engagement team and the component auditors about the group engagement team's requirements.

*Your comments on the Exposure Draft should reach us **by July 31, 2008**. Comments are most helpful if they indicate the specific paragraph(s) to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording. The comments should be sent to:*

Secretary, Auditing and Assurance Standards Board
The Institute of Chartered Accountants of India
ICAI Bhawan, C-1, Sector-1,
NOIDA,
Uttar Pradesh – 201 301.

Comments can also be emailed at: aasb@icai.org

EXPOSURE DRAFT OF REVISED STANDARD ON AUDITING (SA) 600 SPECIAL CONSIDERATIONS – AUDITS OF GROUP FINANCIAL STATEMENTS (INCLUDING THE WORK OF COMPONENT AUDITORS)

Standard on Auditing (SA) 600, "Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)" should be read in the context of the "Preface to the Standards on Quality Control, Auditing, Review, Other Assurance and Related Services", which sets out the authority of SAs.

Introduction

Scope of this SA

1. The Standards on Auditing (SAs) apply to group audits. This SA deals with special considerations that apply to group audits, in particular those that involve component auditors.
2. An auditor may find this SA, adapted as necessary in the circumstances, useful when that auditor involves other auditors in the audit of financial statements that are not group financial statements. For example, an auditor may involve another auditor to observe the inventory count or inspect physical fixed assets at a remote location.
3. A component auditor may be required by statute, regulation or for another reason, to express an audit opinion on the financial statements of a component. The group engagement team may decide to use the audit evidence on which the audit opinion on the financial statements of the component is based to provide audit evidence for the group audit, but the requirements of this SA nevertheless apply. (Ref: Para. A1)
4. In accordance with [proposed] SA 220,² the group engagement partner is required to be satisfied that those performing the group audit engagement, including component auditors, collectively have the appropriate capabilities and competence. The group engagement partner is also responsible for the direction, supervision and performance of the group audit engagement.
5. The group engagement partner applies the requirements of [proposed] SA 220 (Redrafted) regardless of whether the group engagement team or a component auditor performs the work on the financial information of a component. This SA assists the group engagement partner to meet the requirements of [proposed] SA

220 (Redrafted) where component auditors perform work on the financial information of components.

6. Audit risk is a function of the risk of material misstatement of the financial statements and the risk that the auditor will not detect such misstatements.³ In a group audit, this includes the risk that the component auditor may not detect a misstatement in the financial information of the component that could cause a material misstatement of the group financial statements, and the risk that the group engagement team may not detect this misstatement. This SA explains the matters that the group engagement team considers when determining the nature, timing and extent of its involvement in the risk assessment procedures and further audit procedures performed by the component auditors on the financial information of the components. The purpose of this involvement is to obtain sufficient appropriate audit evidence on which to base the audit opinion on the group financial statements.

Effective Date

7. This SA is effective for audits of group financial statements for periods beginning on or after _____(date).

Objectives

8. The objectives of the auditor are:
 - (a) To determine whether to act as the auditor of the group financial statements;
 - (b) To communicate clearly with component auditors about the scope and timing of their work on financial information related to components and their findings; and
 - (c) To obtain sufficient appropriate audit evidence about the financial information of the components and the consolidation process to express an opinion whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Definitions

9. For purposes of the SAs, the following terms have the meanings attributed below:

¹ Published in the July, 2007 issue of the Journal.

² Hitherto known as SA 220 (AAS 17), "Quality Control for Audit Work". The Standard is being revised in the light of the corresponding International Standard.

³ SA 200 (AAS 1), "Basic Principles Governing an Audit" and SA 200 (AAS 2), "Objective and Scope of the Audit of Financial Statements". The Standards are being revised in the light of the corresponding International Standards.

- a) Component – An entity or business activity for which group or component management prepares financial information that should be included in the group financial statements. (Ref: Para. A2-A4)
 - b) Component auditor – An auditor who, at the request of the group engagement team, performs work on financial information related to a component for the group audit. (Ref: Para. A7)
 - c) Component management – Management responsible for preparing the financial information of a component.
 - d) Component materiality – The materiality level for a component determined by the group engagement team.
 - e) Group – All the components whose financial information is included in the group financial statements. A group always has more than one component. (Ref: Para. A4)
 - f) Group audit – The audit of group financial statements.
 - g) Group audit opinion – The audit opinion on the group financial statements.
 - h) Group engagement partner – The partner or other person in the firm who is responsible for the group audit engagement and its performance, and for the auditor’s report on the group financial statements that is issued on behalf of the firm. Where joint auditors conduct the group audit, the joint engagement partners and their engagement teams collectively constitute the group engagement partner and the group engagement team. This SA does not, however, deal with the relationship between joint auditors or the work that one joint auditor performs in relation to the work of the other joint auditor.
 - i) Group engagement team – Partners, including the group engagement partner, and staff who establish the overall group audit strategy, communicate with component auditors, perform work on the consolidation process, and evaluate the conclusions drawn from the audit evidence as the basis for forming an opinion on the group financial statements.
 - j) Group financial statements – Financial statements that include the financial information of more than one component. The term “group financial statements” also refers to combine financial statements aggregating the financial information prepared by components that have no parent but are under common control.
 - k) Group management – Management responsible for preparing and presenting the group financial statements.
 - l) Group-wide controls – Controls designed, implemented and maintained by group management over group financial reporting.
 - m) Significant component – A component identified by the group engagement team (i) that is of individual financial significance to the group, or (ii) that, due to its specific nature or circumstances, is likely to include significant risks of material misstatement of the group financial statements. (Ref: Para. A5-A6)
10. Reference to “the applicable financial reporting framework” means the financial reporting framework that applies to the group financial statements. Reference to “the consolidation process” includes:
- (a) The recognition, measurement, presentation, and disclosure of the financial information of the components in the group financial statements by way of consolidation, proportionate consolidation, or the equity or cost methods of accounting; and
 - (b) The aggregation in combined financial statements of the financial information of components that have no parent but are under common control.

Requirements

Responsibility

11. The group engagement partner is responsible for the direction, supervision and performance of the group audit engagement in compliance with professional standards and regulatory and legal requirements, and whether the auditor’s report that is issued is appropriate in the circumstances.⁴ As a result, the auditor’s report on the group financial statements shall not refer to a component auditor, unless required by law or regulation to include such reference. If such reference is required by law or regulation, the auditor’s report shall indicate that the reference does not diminish the group engagement partner’s or the group engagement partner’s firm’s responsibility for the group audit opinion. (Ref: Para. A8-A9)

Acceptance and Continuance

12. In applying [proposed] SA 220, the group engagement partner shall determine whether sufficient appropriate audit evidence can reasonably be expected to be obtained in relation to the consolidation process and the financial information of the components on which to base the group audit opinion. For this purpose, the group engage-

⁴ SA 220 (AAS 17), “Quality Control for Audit Work”. The standard is being revised in the light of the corresponding International Standard.

ment team shall obtain an understanding of the group, its components, and their environments that is sufficient to identify components that are likely to be significant components. Where component auditors will perform work on the financial information of such components, the group engagement partner shall evaluate whether the group engagement team will be able to be involved in the work of those component auditors to the extent necessary to obtain sufficient appropriate audit evidence. (Ref: Para. A10-A12)

13. If the group engagement partner concludes that:
 - (a) it will not be possible for the group engagement team to obtain sufficient appropriate audit evidence due to restrictions imposed by group management; and
 - (b) the possible effect of this inability will result in a disclaimer of opinion on the group financial statements,⁵ the group engagement partner shall either:
 - in the case of a new engagement, not accept the engagement, or, in the case of a continuing engagement, resign from the engagement; or
 - where law or regulation prohibits an auditor from declining or resigning from an engagement, having performed the audit of the group financial statements to the extent possible, disclaim an opinion on the group financial statements. (Ref: Para. A13-A19)

Terms of Engagement

14. The group engagement partner shall agree on the terms of the group audit engagement in accordance with SA 210.⁶ (Ref: Para. A20-A21)

Overall Audit Strategy and Audit Plan

15. The group engagement team shall establish an overall group audit strategy and shall develop a group audit plan in accordance with SA 300.⁷
16. The group engagement partner shall review the overall group audit strategy and group audit plan. (Ref: Para. A22)

Understanding the Group, Its Components and Their Environments

17. The auditor is required to identify and assess the risks of material misstatement through obtaining an understanding of the entity and its environment.⁸ The group engagement team shall:
 - (a) Enhance its understanding of the group, its

components, and their environments, including group-wide controls, obtained during the acceptance or continuance stage, and

- (b) Obtain an understanding of the consolidation process, including the instructions issued by group management to components. (Ref: Para. A23-A29)
18. The group engagement team shall obtain an understanding that is sufficient to:
 - (a) Confirm or revise its initial identification of components that are likely to be significant; and
 - (b) Assess the risks of material misstatement of the group financial statements, whether due to fraud or error.⁹ (Ref: Para. A30-A31)

Understanding the Component Auditors

19. When the group engagement team plans to request a component auditor to perform work on the financial information of a component, the group engagement team shall obtain an understanding of the following: (Ref: Para. A32-A35)
 - (a) Whether the component auditor understands and will comply with the ethical requirements that are relevant to the group audit and, in particular, is independent; (Ref: Para. A37)
 - (b) The component auditor's professional competence in the context of specific assignment if the other auditor is not a member of the Institute of Chartered Accountants of India; (Ref: Para. A38)
 - (c) Whether the group engagement team will be able to be involved in the work of the component auditor to the extent necessary to obtain sufficient appropriate audit evidence; and
 - (d) Whether the component auditor operates in a regulatory environment that actively oversees auditors. (Ref: Para. A36)
20. When a component auditor does not meet the independence requirements that are relevant to the group audit, or the group engagement team has serious concerns about the other matters listed in paragraph 19(a)-(c), the group engagement team shall obtain sufficient appropriate audit evidence relating to the financial information of the component without requesting that component auditor to perform work on the financial information of that component. (Ref: Para. A39-A41)

⁵ At present, there is no corresponding SA issued by AASB on the subject. The AASB proposes to issue an Exposure Draft of the proposed new Standard SA 705, "Modifications to the Opinion in the Independent Auditor's Report" based on the corresponding International Standard on Auditing in the near future.

⁶ Hitherto known as SA 210 (AAS 26), "Terms of Audit Engagement". The Standard is being revised in the light of the corresponding International Standard.

⁷ SA 300 (AAS 8), "Planning an Audit of Financial Statements" is effective for audits of financial statements for periods beginning on or after 1st April, 2008.

⁸ SA 315, "Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment" is effective for audits of financial statements for periods beginning on or after April 1, 2008.

⁹ SA 315

Materiality

21. The group engagement team shall determine the following: (Ref: Para. A42)
 - (a) The materiality level for the group financial statements as a whole when establishing the overall group audit strategy.
 - (b) Whether, in the specific circumstances of the group, there are particular classes of transactions, account balances or disclosures in the group financial statements for which misstatements of lesser amounts than the materiality level for the group financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the group financial statements. In such circumstances, the group engagement team shall determine the materiality levels to be applied to those particular classes of transactions, account balances or disclosures.
 - (c) Component materiality for those components where component auditors will perform an audit or a review for purposes of the group audit. To reduce the risk that the aggregate of detected and undetected misstatements in the group financial statements exceeds the materiality level for the group financial statements as a whole, component materiality shall be lower than the materiality level for the group financial statements as a whole. (Ref: Para. A43-A44)
 - (d) The threshold above which misstatements cannot be regarded as clearly trivial to the group financial statements. (Ref: Para. A45)
22. Where component auditors will perform an audit for purposes of the group audit, the group engagement team shall evaluate the appropriateness of the amount or amounts lower than the component materiality level (and the amount or amounts lower than the materiality level for particular classes of transactions, account balances or disclosures, if applicable) determined for purposes of assessing the risks of material misstatement and designing further audit procedures to respond to assessed risks at the component level. (Ref: Para. A46)
23. When a component is subject to audit by statute, regulation or other reason, and the group engagement team decides to use that audit to provide audit evidence for the group audit, the group engagement team shall determine whether:
 - (a) the materiality level determined for the component financial statements as a whole; and

- (b) the lower amounts determined for purposes of assessing the risks of material misstatement and designing further audit procedures to respond to assessed risks at the component level meet the requirements of this SA.

Responding to Assessed Risks

24. The auditor is required to design and implement appropriate responses to address the assessed risks of material misstatement of the financial statements.¹⁰ The group engagement team shall determine the type of work to be performed by the group engagement team, or the component auditors on its behalf, on the financial information of the components (see paragraphs 26-29). The group engagement team shall also determine the nature, timing and extent of its involvement in the work of the component auditors (see paragraphs 30-31). (Ref: Para. A47)
25. If the nature, timing and extent of the work to be performed on the consolidation process or the financial information of the components are based on an expectation that group-wide controls are operating effectively, or when substantive procedures alone cannot provide sufficient appropriate audit evidence at the assertion level, the group engagement team shall test, or request a component auditor to test, the operating effectiveness of those controls.

Determining the Type of Work to Be Performed on the Financial Information of Components*Significant Components*

26. For a component that is significant due to its individual financial significance to the group, the group engagement team, or a component auditor on its behalf, shall perform an audit of the financial information of the component using component materiality.
27. For a component that is significant because it is likely to include significant risks of material misstatement of the group financial statements due to its specific nature or circumstances, the group engagement team, or a component auditor on its behalf, shall perform one or more of the following:
 - (a) An audit of the financial information of the component using component materiality.
 - (b) An audit of one or more account balances, classes of transactions or disclosures relating to the likely significant risks of material misstatement of the group financial statements. (Ref: Para. A48)
 - (c) Specified audit procedures relating to the

¹⁰ SA 330, "The Auditor's Responses to Assessed Risks" is effective for audits of financial statements for periods beginning on or after April 1, 2008.

likely significant risks of material misstatement of the group financial statements. (Ref: Para. A49)

Components that are Not Significant Components

28. For components that are not significant components, the group engagement team shall perform analytical procedures at group level. (Ref: Para. A50)
29. If the group engagement team does not consider that sufficient appropriate audit evidence on which to base the group audit opinion will be obtained from:
 - (a) The work performed on the financial information of significant components;
 - (b) The work performed on group-wide controls and the consolidation process; and
 - (c) The analytical procedures performed at group level, the group engagement team shall select components that are not significant components and shall perform, or request a component auditor to perform, one or more of the following on the financial information of the individual components selected: (Ref: Para. A51-A53)
 - An audit of the financial information of the component using component materiality.
 - An audit of one or more account balances, classes of transactions or disclosures.
 - A review of the financial information of the component using component materiality.
 - Specified procedures.

The group engagement team shall vary the selection of components over a period of time.

Involvement in the Work Performed by Component Auditors (Ref: Para. A54-A55)

Significant Components—Risk Assessment

30. When a component auditor performs an audit of the financial information of a significant component, the group engagement team shall be involved in the component auditor's risk assessment to identify significant risks of material misstatement of the group financial statements. The nature, timing and extent of this involvement are affected by the group engagement team's understanding of the component auditor, but at a minimum shall include:
 - (a) Discussing with the component auditor or component management those of the component's business activities that are significant to the group;

- (b) Discussing with the component auditor the susceptibility of the component to material misstatement of the financial information due to fraud or error; and
- (c) Reviewing the component auditor's documentation of identified significant risks of material misstatement of the group financial statements. Such documentation may take the form of a memorandum that reflects the component auditor's conclusion with regard to the identified significant risks.

Identified Significant Risks of Material Misstatement of the Group Financial Statements—

Further Audit Procedures

31. When significant risks of material misstatement of the group financial statements have been identified in a component on which a component auditor performs the work, the group engagement team shall evaluate the appropriateness of the further audit procedures to be performed to respond to the identified significant risks of material misstatement of the group financial statements. Based on its understanding of the component auditor, the group engagement team shall determine whether it is necessary to be involved in the further audit procedures.

Consolidation Process

32. In accordance with paragraph 17, the group engagement team obtains an understanding of group-wide controls and the consolidation process, including the instructions issued by group management to components. In accordance with paragraph 25, the group engagement team, or component auditor at the request of the group engagement team, tests the operating effectiveness of group-wide controls if the nature, timing and extent of the work to be performed on the consolidation process are based on an expectation that group-wide controls are operating effectively, or when substantive procedures alone cannot provide sufficient appropriate audit evidence at the assertion level.
33. The group engagement team shall design and perform further audit procedures on the consolidation process to respond to the assessed risks of material misstatement of the group financial statements arising from the consolidation process. This shall include evaluating whether all components have been included in the group financial statements.
34. The group engagement team shall evaluate the appropriateness, completeness and accuracy of consolidation adjustments and reclassifications,

and shall evaluate whether any fraud risk factors or indicators of possible management bias exist. (Ref: Para. A56)

35. If the financial information of a component has not been prepared in accordance with the same accounting policies applied to the group financial statements, the group engagement team shall evaluate whether the financial information of that component has been appropriately adjusted for purposes of preparing and presenting the group financial statements.
36. The group engagement team shall determine whether the financial information identified in the component auditor's communication (see paragraph 41(c)) is the financial information that is incorporated in the group financial statements.
37. If the group financial statements include the financial statements of a component with a financial reporting period-end that differs from that of the group, the group engagement team shall evaluate whether appropriate adjustments have been made to those financial statements in accordance with the applicable financial reporting framework.

Subsequent Events

38. Where the group engagement team or component auditors perform audits on the financial information of components, the group engagement team or the component auditors shall perform procedures designed to identify events at those components that occur between the dates of the financial information of the components and the date of the auditor's report on the group financial statements, and that may require adjustment to or disclosure in the group financial statements.
39. Where component auditors perform work other than audits of the financial information of components, the group engagement team shall request the component auditors to notify the group engagement team if they become aware of subsequent events that may require an adjustment to or disclosure in the group financial statements.

Communication with the Component Auditor

40. The group engagement team shall communicate its requirements to the component auditor on a timely basis. This communication shall set out the work to be performed, the use to be made of that work, and the form and content of the component auditor's communication with the group engagement team. (Ref: Para. A57, A58, A60) It shall also include the following:
 - (a) A request that the component auditor, knowing the context in which the group

engagement team will use the work of the component auditor, confirms that the component auditor will cooperate with the group engagement team. (Ref: Para. A59)

- (b) The ethical requirements that is relevant to the group audit and, in particular, the independence requirements.
 - (c) In the case of an audit or review of the financial information of the component, component materiality (and the amount or amounts lower than the materiality level for particular classes of transactions, account balances or disclosures, if applicable) and the threshold above which misstatements cannot be regarded as clearly trivial to the group financial statements.
 - (d) Identified significant risks of material misstatement of the group financial statements, due to fraud or error, that are relevant to the work of the component auditor. The group engagement team shall request the component auditor to communicate on a timely basis any other identified significant risks of material misstatement of the group financial statements, due to fraud or error, in the component, and the component auditor's responses to such risks.
 - (e) A list of related parties prepared by group management, and any other related parties of which the group engagement team is aware. The group engagement team shall request the component auditor to communicate on a timely basis related parties not previously identified by group management or the group engagement team. The group engagement team shall determine whether to identify such additional related parties to other component auditors.
41. The group engagement team shall request the component auditor to communicate matters relevant to the group engagement team's conclusion with regard to the group audit. Such communication shall include: (Ref: Para. A60)
 - (a) Whether the component auditor has complied with ethical requirements that are relevant to the group audit, including independence and professional competence;
 - (b) Whether the component auditor has complied with the group engagement team's requirements;
 - (c) Identification of the financial information of the component on which the component auditor is reporting;
 - (d) Information on instances of non-compliance with laws or regulations that could give rise to a material misstatement of the group financial statements;

- (e) A list of uncorrected misstatements of the financial information of the component (the list need not include misstatements that are below the threshold) for clearly trivial misstatements communicated by the group engagement team (see paragraph 40(c));
- (f) Indicators of possible management bias;
- (g) Description of any identified material weaknesses in internal control over financial reporting at the component level;
- (h) Other significant matters that the component auditor communicated or expects to communicate to those charged with governance of the component, including fraud or suspected fraud involving component management, employees who have significant roles in internal control at the component level or others where the fraud resulted in a material misstatement of the financial information of the component;
- (i) Any other matters that may be relevant to the group audit, or that the component auditor wishes to draw to the attention of the group engagement team, including exceptions noted in the written representations that the component auditor requested from component management; and
- (j) The component auditor's overall findings, conclusions or opinion.

Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained

Evaluating the Component Auditor's Communication and Adequacy of their Work

42. The group engagement team shall evaluate the component auditor's communication (see paragraph 41). The group engagement team shall:
 - (a) Discuss significant matters arising from that evaluation with the component auditor, component management or group management, as appropriate; and
 - (b) Determine whether it is necessary to review other relevant parts of the component auditor's audit documentation. (Ref: Para. A61)
43. If the group engagement team concludes that the work of the component auditor is insufficient, the group engagement team shall determine what additional procedures are to be performed, and whether they are to be performed by the component auditor or by the group engagement team.

Sufficiency and Appropriateness of Audit Evidence

44. The auditor is required to obtain sufficient appropriate audit evidence on which to base the audit opinion.¹¹ The group engagement team shall evaluate whether sufficient appropriate audit evidence has been obtained from the audit procedures performed on the consolidation process and the work performed by the group engagement team and the component auditors on the financial information of the components, on which to base the group audit opinion. (Ref: Para. A62)
45. The group engagement partner shall evaluate the effect on the group audit opinion of any uncorrected misstatements (either identified by the group engagement team or communicated by component auditors) and any instances where there has been an inability to obtain sufficient appropriate audit evidence. (Ref: Para. A63)

Communication with Group Management and Those Charged with Governance of the Group

Communication with Group Management

46. The group engagement team shall make group management aware, on a timely basis and at an appropriate level of responsibility, of:
 - (a) Material weaknesses in the design or operating effectiveness of group-wide controls;
 - (b) Material weaknesses that the group engagement team has identified in internal controls at components and judges are of significance to the group; and
 - (c) Material weaknesses that component auditors have identified in internal controls at components and brought to the attention of the group engagement team that the group engagement team judges are of significance to the group.
47. If fraud has been identified by the group engagement team or brought to its attention by a component auditor (see paragraph 41(h)), or information indicates that a fraud may exist, the group engagement team shall communicate this on a timely basis to the appropriate level of group management in order to inform those with primary responsibility for the prevention and detection of fraud of matters relevant to their responsibilities. (Ref. Para. A64)
48. A component auditor may be required by statute, regulation or for another reason, to express an audit opinion on the financial statements of a component. In that case, the group engagement team shall request group management to inform component management of any matter of which the group engagement team becomes

¹¹ SA 200 (AAS 1), "Basic Principles Governing an Audit". The AASB has undertaken a project to issue a single Standard on Auditing (SA) corresponding to ISA 200 and withdrawn the SA 200 and SA 200 A.

aware that may be significant to the financial statements of the component, but of which component management may be unaware. If group management refuses to communicate the matter to component management, the group engagement team shall discuss the matter with those charged with governance of the group. If the matter remains unresolved, the group engagement team, subject to legal and professional confidentiality considerations, shall consider whether to advise the component auditor not to issue the auditor's report on the financial statements of the component until the matter is resolved. (Ref: Para. A65)

Communication with Those Charged with Governance of the Group

49. The group engagement team shall communicate the following matters with those charged with governance of the group, in addition to those required by SA 260 (Revised and Redrafted)¹² and other SAs: (Ref: Para. A66)
- An overview of the type of work to be performed on the financial information of the components.
 - An overview of the nature of the group engagement team's planned involvement in the work to be performed by the component auditors on the financial information of significant components.
 - Instances where the group engagement team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work.
 - Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted.
 - Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements.

Documentation

50. In meeting the documentation requirements in SA 230 (Redrafted)¹³ and other SAs, the group engagement team shall also document the following matters:
- An analysis of components, indicating those that are significant, and the type of work performed on the financial information of the components.
 - The nature, timing and extent of the group

engagement team's involvement in the work performed by the component auditors on significant components including, where applicable, the group engagement team's review of relevant parts of the component auditors' audit documentation and conclusions thereon.

- Written communications between the group engagement team and the component auditors about the group engagement team's requirements.

Application and Other Explanatory Material

Components Subject to Audit by Statute, Regulation or Other Reason (Ref: Para. 3)

- A1. Factors that may affect the group engagement team's decision whether to use an audit required by statute, regulation or for another reason to provide audit evidence for the group audit include the following:
- Differences in the financial reporting framework applied in preparing the financial statements of the component and that applied in preparing the group financial statements.
 - Differences in the auditing and other standards applied by the component auditor and those applied in the audit of the group financial statements.
 - Whether the audit of the financial statements of the component will be completed in time to meet the group-reporting timetable.

Definitions

Component (Ref: Para. 9(a))

- A2. The structure of a group affects how components are identified. For example, the group financial reporting system may be based on an organisational structure that provides for financial information to be prepared by a parent and one or more subsidiaries, joint ventures, or investees accounted for by the equity or cost methods of accounting; by a head office and one or more divisions or branches; or by a combination of both. Some groups, however, may organise their financial reporting system by function, process, product or service (or by groups of products or services), or geographical locations. In these cases, the entity or business activity for which group or component management prepares financial information that is included in the group financial statements may be a function, process, product or service (or group of products or services), or geographical location.

¹² The Exposure Draft of SA 260 (AAS 27) "Communication with Those Charged with Governance has been published in the May, 2008 issue of the journal.

¹³ SA 230 (AAS 3), "Documentation" is being revised in the light of the corresponding International Standard.

- A3. Various levels of components may exist within the group financial reporting system, in which case it may be more appropriate to identify components at certain levels of aggregation rather than individually.
- A4. Components aggregated at a certain level may constitute a component for purposes of the group audit; however, such a component may also prepare group financial statements that incorporate the financial information of the components it encompasses (i.e., a sub-group). This SA may therefore be applied by different group engagement partners and teams for different sub-groups within a larger group.

Significant Component (Ref: Para. 9(m))

- A5. As the individual financial significance of a component increases, the risks of material misstatement of the group financial statements ordinarily increase. The group engagement team may apply a percentage to a chosen benchmark as an aid to identify components that are of individual financial significance. Identifying a benchmark and determining a percentage to be applied to it involve the exercise of professional judgment. Depending on the nature and circumstances of the group, appropriate benchmarks might include group assets, liabilities, cash flows, profit or turnover. For example, the group engagement team may consider that components exceeding 15% of the chosen benchmark are significant components. A higher or lower percentage may, however, be deemed appropriate in the circumstances.
- A6. The group engagement team may also identify a component as likely to include significant risks material misstatement of the group financial statements due to its specific nature or circumstances (i.e., risks that require special audit consideration¹⁴). For example, a component could be responsible for foreign exchange trading and thus expose the group to a significant risk of material misstatement, even though the component is not otherwise of individual financial significance to the group.

Component Auditor (Ref: Para. 9(b))

- A7. A member of the group engagement team may perform work on the financial information of a component for the group audit at the request of the group engagement team. Where this is the case, such a member of the engagement team is also a component auditor.

Responsibility (Ref: Para. 11)

- A8. Although component auditors may perform

work on the financial information of the components for the group audit and as such are responsible for their overall findings, conclusions or opinions, the group engagement partner or the group engagement partner's firm is responsible for the group audit opinion.

- A9. When the group audit opinion is modified because the group engagement team was unable to obtain sufficient appropriate audit evidence in relation to the financial information of one or more components, the Basis for Modification paragraph in the auditor's report on the group financial statements describes the reasons for that inability without referring to the component auditor, unless such a reference is necessary for an adequate explanation of the circumstances.¹⁵

Acceptance and Continuance

Obtaining an Understanding at the Acceptance or Continuance Stage (Ref: Para. 12)

- A10. In the case of a new engagement, the group engagement team's understanding of the group, its components, and their environments may be obtained from:
- Information provided by group management;
 - Communication with group management; and
 - where applicable, communication with the previous group engagement team, component management, or component auditors.
- A11. The group engagement team's understanding may include matters such as the following:
- The group structure, including both the legal and organisational structure (i.e., how the group financial reporting system is organised).
 - Components' business activities that is significant to the group, including the industry and regulatory, economic and political environments in which those activities take place. The use of service organisations, including shared service centers.
 - A description of group-wide controls.
 - The complexity of the consolidation process.
 - Whether component auditors that are not from the group engagement partner's firm or network will perform work on the financial information of any of the components, and group management's rationale for ap-

¹⁴ SA 315, paragraphs 26-28.

¹⁵ See footnote 5.

pointing more than one auditor.

- Whether the group engagement team:
 - Will have unrestricted access to those charged with governance of the group, group management, those charged with governance of the component, component management, component information, and the component auditors (including relevant audit documentation sought by the group engagement team); and
 - Will be able to perform necessary work on the financial information of the components.

A12. In the case of a continuing engagement, the group engagement team's ability to obtain sufficient appropriate audit evidence may be affected by significant changes, for example:

- Changes in the group structure (e.g., acquisitions, disposals, reorganisations, or changes in how the group financial reporting system is organised).
- Changes in components' business activities that are significant to the group.
- Changes in the composition of those charged with governance of the group, group management, or key management of significant components.
- Concerns the group engagement team has with regard to the integrity and competence of group or component management.
- Changes in group-wide controls.
- Changes in the applicable financial reporting framework.

Expectation to Obtain Sufficient Appropriate Audit Evidence (Ref: Para. 13)

A13. A group may consist only of components not considered significant components. In these circumstances, the group engagement partner can reasonably expect to obtain sufficient appropriate audit evidence on which to base the group audit opinion if the group engagement team will be able to:

- (a) Perform the work on the financial information of some of these components; and
- (b) Be involved in the work performed by component auditors on the financial information of other components to the extent necessary to obtain sufficient appropriate audit evidence.

Access to Information (Ref: Para. 13)

A14. The group engagement team's access to

information may be restricted by circumstances that cannot be overcome by group management, for example laws relating to confidentiality and data privacy, or denial by the component auditor of access to relevant audit documentation sought by the group engagement team. It may also be restricted by group management.

A15. Where access to information is restricted by circumstances, the group engagement team may still be able to obtain sufficient appropriate audit evidence; however, this is less likely as the significance of the component increases. For example, the group engagement team may not have access to those charged with governance, management, or the auditor (including relevant audit documentation sought by the group engagement team) of a component that is accounted for by the equity method of accounting. If the component is not a significant component, and the group engagement team has a complete set of financial statements of the component, including the auditor's report thereon, and has access to information kept by group management in relation to that component, the group engagement team may conclude that this information constitutes sufficient appropriate audit evidence in relation to that component. If the component is a significant component, however, the group engagement team will not be able to comply with the requirements of this SA relevant in the circumstances of the group audit. For example, the group engagement team will not be able to comply with the requirement in paragraphs 30-31 to be involved in the work of the component auditor. The group engagement team will not, therefore, be able to obtain sufficient appropriate audit evidence in relation to that component. The effect of the group engagement team's inability to obtain sufficient appropriate audit evidence is considered in terms of [proposed] SA 705.

A16. The group engagement team will not be able to obtain sufficient appropriate audit evidence if group management restricts the access of the group engagement team or a component auditor to the information of a significant component.

A17. Although the group engagement team may be able to obtain sufficient appropriate audit evidence if such restriction relates to a component considered not a significant component, the reason for the restriction may affect the group audit opinion. For example, it may affect the reliability of group management's responses to the group engagement team's inquiries and group management's representations to the group engagement team.

A18. Law or regulation may prohibit the group engagement partner from declining or resigning from an engagement. For example, in some jurisdictions the auditor is appointed for a specified period of time and is prohibited from resigning before the end of that period. Also, in the public sector, the option of declining or resigning from an engagement may not be available to the auditor due to the nature of the mandate or public interest considerations. In these circumstances, this SA still applies to the group audit, and the effect of the group engagement team's inability to obtain sufficient appropriate audit evidence is considered in terms of [proposed] SA 705.

A19. Appendix 1 contains an example of an auditor's report containing a qualified opinion based on the group engagement team's inability to obtain sufficient appropriate audit evidence in relation to a significant component accounted for by the equity method of accounting, but where, in the group engagement team's judgment, the effect is material but not pervasive.

Terms of Engagement (Ref: Para. 14)

A20. The terms of engagement identifies the applicable financial reporting framework.¹⁶ Additional matters may be included in the terms of a group audit engagement, such as the fact that:

- The communication between the group engagement team and the component auditors should be unrestricted to the extent permitted by law or regulation.
- Important communications between the component auditors, those charged with governance of the component, and component management, including communications on material weaknesses in internal control, should be communicated as well to the group engagement team.
- Important communications between regulatory authorities and components related to financial reporting matters should be communicated to the group engagement team.
- To the extent the group engagement team considers necessary, it should be permitted:
 - Access to component information, those charged with governance of components, component management, and the component auditors (including relevant audit documentation sought by the group engagement team); and
 - To perform work or request a component auditor to perform work on the

financial information of the components.

A21. Restrictions imposed on:

- the group engagement team's access to component information, those charged with governance of components, component management, or the component auditors (including relevant audit documentation sought by the group engagement team); or
- the work to be performed on the financial information of the components, after the group engagement partner's acceptance of the group audit engagement, constitute an inability to obtain sufficient appropriate audit evidence that may affect the group audit opinion. In exceptional circumstances it may even lead to resignation from the engagement where that is not prohibited by law or regulation.

Overall Audit Strategy and Audit Plan (Ref: Para. 16)

A22. The group engagement partner's review of the overall group audit strategy and group audit plan is an important part of fulfilling the group engagement partner's responsibility for the direction of the group audit engagement.

Understanding the Group, Its Components and Their Environments

Matters About Which the Group Engagement Team Obtains an Understanding (Ref: Para. 17)

A23. SA 315¹⁷ contains guidance on matters the auditor may consider when obtaining an understanding of the industry, regulatory, and other external factors that affect the entity, including the applicable financial reporting framework; the nature of the entity; objectives and strategies and related business risks; and measurement and review of the entity's financial performance. Appendix 2 of this SA contains guidance on matters specific to a group, including the consolidation process.

Instructions Issued by Group Management to Components (Ref: Para. 17)

A24. To achieve uniformity and comparability of financial information, group management ordinarily issues instructions to components. Such instructions specify the requirements for financial information of the components to be included in the group financial statements and often include financial reporting procedures manuals and a reporting package. A reporting package ordinarily consists of standard formats for providing financial information for incorporation in the group financial statements. Reporting pack-

¹⁶ See footnote 6.

¹⁷ SA 315, paragraphs A15 - A37

ages generally do not, however, take the form of complete financial statements prepared and presented in accordance with the applicable financial reporting framework.

A25. The instructions ordinarily cover:

- The accounting policies to be applied;
- Statutory and other disclosure requirements applicable to the group financial statements, including:
 - The identification and reporting of segments;
 - Related party relationships and transactions;
 - Intra-group transactions and unrealised profits;
 - Intra-group account balances; and
- A reporting timetable.

A26. The group engagement team's understanding of the instructions may include the following:

- The clarity and practicality of the instructions for completing the reporting package.
- Whether the instructions:
 - Adequately describe the characteristics of the applicable financial reporting framework;
 - Provide for disclosures that are sufficient to comply with the requirements of the applicable financial reporting framework, for example disclosure of related party relationships and transactions, and segment information;
 - Provide for the identification of consolidation adjustments, for example intra-group transactions and unrealised profits, and intra-group account balances; and
 - Provide for the approval of the financial information by component management.

Fraud (Ref: Para. 17)

A27. The auditor is required to identify and assess the risks of material misstatement of the financial statements due to fraud, and to design and implement appropriate responses to the assessed risks.¹⁸ Information used to identify the risks of material misstatement of the group financial statements due to fraud may include the following:

- Group management's assessment of the

risks that the group financial statements may be materially misstated as a result of fraud.

- Group management's process for identifying and responding to the risks of fraud in the group, including any specific fraud risks identified by group management, or account balances, classes of transactions, or disclosures for which a risk of fraud is likely.
- Whether there are particular components for which a risk of fraud is likely.
- How those charged with governance of the group monitor group management's processes for identifying and responding to the risks of fraud in the group, and the controls group management has established to mitigate these risks.
- Responses of those charged with governance of the group, group management, internal audit (and if considered appropriate, component management, the component auditors, and others) to the group engagement team's inquiry whether they have knowledge of any actual, suspected, or alleged fraud affecting a component or the group.

Discussion among Group Engagement Team Members and Component Auditors Regarding the Risks of Material Misstatement of the Group Financial Statements, Including Risks of Fraud (Ref: Para. 17)

A28. The key members of the engagement team are required to discuss the susceptibility of an entity to material misstatement of the financial statements due to fraud or error, specifically emphasising the risks due to fraud. In a group audit, these discussions may also include the component auditors.¹⁹ The group engagement partner's determination of which to include in the discussions, how and when they occur, and their extent, is affected by factors such as prior experience with the group.

A29. The discussions provide an opportunity to:

- Share knowledge of the components and their environments, including group-wide controls.
- Exchange information about the business risks of the components or the group.
- Exchange ideas about how and where the group financial statements may be susceptible to material misstatement due to fraud or error, how group management and component management could perpetrate and conceal fraudulent financial reporting, and

¹⁸ SA 240 (Revised), "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements," is effective for audits of financial statements for periods beginning on or after 1st April, 2009.

¹⁹ SA 240 (Revised), paragraph 15, and SA 315, paragraph 10.

how assets of the components could be misappropriated.

- Identify practices followed by group or component management that may be biased or designed to manage earnings that could lead to fraudulent financial reporting, for example revenue recognition practices that do not comply with the applicable financial reporting framework.
- Consider known external and internal factors affecting the group that may create an incentive or pressure for group management, component management, or others to commit fraud, provide the opportunity for fraud to be perpetrated, or indicate a culture or environment that enables group management, component management, or others to rationalise committing fraud.
- Consider the risk that group or component management may override controls.
- Consider whether uniform accounting policies are used to prepare the financial information of the components for the group financial statements and, where not, how differences in accounting policies are identified and adjusted (where required by the applicable financial reporting framework).
- Discuss fraud that has been identified in components, or information that indicates existence of a fraud in a component.
- Share information that may indicate non-compliance with national laws or regulations, for example payments of bribes and improper transfer pricing practices.

Risk Factors (Ref: Para. 18)

A30. Appendix 3 sets out examples of conditions or events that, individually or together, may indicate risks of material misstatement of the group financial statements, including risks due to fraud.

Risk Assessment (Ref: Para. 18)

A31. The group engagement team's assessment at group level of the risks of material misstatement of the group financial statements is based on information such as the following:

- Information obtained from the understanding of the group, its components, and their environments, and of the consolidation process, including audit evidence obtained in evaluating the design and implementation of group-wide controls and controls that are relevant to the consolidation.
- Information obtained from the component auditors.

Understanding the Component Auditors (Ref: Para. 19-20)

A32. The group engagement team obtains an understanding of a component auditor only when it plans to request the component auditor to perform work on the financial information of a component for the group audit. For example, it will not be necessary to obtain an understanding of the auditors of those components for which the group engagement team plans to perform analytical procedures at group level only.

Group Engagement Team's Procedures to Obtain an Understanding of the Component Auditor and Sources of Audit Evidence (Ref: Para. 19)

A33. The nature, timing and extent of the group engagement team's procedures to obtain an understanding of the component auditor are affected by factors such as previous experience with or knowledge of the component auditor, and the degree to which the group engagement team and the component auditor are subject to common policies and procedures, for example:

- Whether the group engagement team and a component auditor share:
 - Common policies and procedures for performing the work (e.g., audit methodologies);
 - Common quality control policies and procedures; or
 - Common monitoring policies and procedures.
- The consistency or similarity of:
 - Laws and regulations or legal system;
 - Professional oversight, discipline, and external quality assurance;
 - Education and training;
 - Professional organisations and standards;
 - Language and culture.

A34. These factors interact and are not mutually exclusive. For example, the extent of the group engagement team's procedures to obtain an understanding of Component Auditor A, who consistently applies common quality control and monitoring policies and procedures and a common audit methodology or operates in the same jurisdiction as the group engagement partner, may be less than the extent of the group engagement team's procedures to obtain an understanding of Component Auditor B, who is not consistently applying common quality control and monitoring policies and procedures and a common audit methodology or operates in a foreign jurisdiction. The nature of the procedures performed in relation to Component Auditors A and B may also be different.

A35. The group engagement team may obtain an understanding of the component auditor in a number of ways. In the first year of involving a component auditor, the group engagement team may, for example:

- Evaluate the results of the quality control monitoring system where the group engagement team and component auditor are from a firm or network that operates under and complies with common monitoring policies and procedures²⁰
- Visit the component auditor to discuss the matters in paragraph 19(a)-(c);
- Request the component auditor to confirm the matters referred to in paragraph 19(a)-(c) in writing. Appendix 4 contains an example of written confirmations by a component auditor;
- Request the component auditor to complete questionnaires about the matters in paragraph 19(a)-(c);
- Discuss the component auditor with colleagues in the group engagement partner's firm, or with a reputable third party that has knowledge of the component auditor; or
- Obtain confirmations from the professional body or bodies to which the component auditor belongs, the authorities by which the component auditor is licensed, or other third parties. In subsequent years, the understanding of the component auditor may be based on the group engagement team's previous experience with the component auditor. The group engagement team may request the component auditor to confirm whether anything in relation to the matters listed in paragraph 19(a)-(c) has changed since the previous year.

A36. Where independent oversight bodies have been established to oversee the auditing profession and monitor the quality of audits, awareness of the regulatory environment may assist the group engagement team in evaluating the independence and competence of the component auditor. Information about the regulatory environment may be obtained from the component auditor or information provided by the independent oversight bodies.

Ethical Requirements that are Relevant to the Group Audit (Ref: Para. 19(a))

A37. When performing work on the financial information of a component for a group audit, the component auditor is subject to ethical requirements that are relevant to the group audit. Such require-

ments may be different or in addition to those applying to the component auditor when performing a statutory audit in the component auditor's jurisdiction. The group engagement team therefore obtains an understanding whether the component auditor understands and will comply with the ethical requirements that are relevant to the group audit, sufficient to fulfill the component auditor's responsibilities in the group audit.

The Component Auditor's Professional Competence (Ref: Para. 19(b))

A38. The group engagement team's understanding of the component auditor's professional competence may include whether the component auditor:

- Possesses an understanding of auditing and other standards applicable to the group audit that is sufficient to fulfill the component auditor's responsibilities in the group audit;
- Possesses the special skills (e.g., industry specific knowledge) necessary to perform the work on the financial information of the particular component; and
- Where relevant, possesses an understanding of the applicable financial reporting framework that is sufficient to fulfill the component auditor's responsibilities in the group audit (instructions issued by group management to components often describe the characteristics of the applicable financial reporting framework).

Application of the Group Engagement Team's Understanding of a Component Auditor (Ref: Para. 19 - 20)

A39. The group engagement team cannot overcome the fact that a component auditor is not independent by being involved in the work of the component auditor or by performing additional risk assessment or further audit procedures on the financial information of the component.

A40. However, the group engagement team may be able to overcome less than serious concerns about the component auditor's professional competency (e.g., lack of industry specific knowledge), or the fact that the component auditor does not operate in an environment that actively oversees auditors, by being involved in the work of the component auditor or by performing additional risk assessment or further audit procedures on the financial information of the component.

A41. Where law or regulation prohibits access to relevant parts of the audit documentation of the component auditor, the group engagement

²⁰ Standard on Quality Control (SQC 1), "Quality Control for Firms that Perform Audits and Reviews of Financial Information, and Other Assurance and Related Services Engagements," is recommendatory for accounting periods beginning on or after April 1, 2008 and is mandatory for accounting periods beginning on or after April 1, 2008.

team may request the component auditor to overcome this by preparing a memorandum that covers the relevant information.

Materiality (Ref: Para. 21-23)

A42. The auditor is required²¹

- (a) When establishing the overall audit strategy, to determine a materiality level for the financial statements as a whole.
- (b) When establishing the overall audit strategy, to consider whether, in the specific circumstances of the entity, there are particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than the materiality level for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. In such circumstances, the auditor determines the materiality levels to be applied to those particular classes of transactions, account balances or disclosures.
- (c) To determine one or more amounts lower than the materiality level for the financial statements as a whole for purposes of assessing the risks of material misstatement and designing further audit procedures to respond to assessed risks. In the context of a group audit, materiality levels are established for both the group financial statements as a whole, and for the financial information of the components. The materiality level for the group financial statements as a whole is used when establishing the overall group audit strategy.

A43. To reduce the risk that the aggregate of detected and undetected misstatements in the group financial statements exceeds the materiality level for the group financial statements as a whole, the component materiality level is set lower than the group materiality level. Different materiality levels may be established for different components. The component materiality level need not be an arithmetical portion of the group materiality level and, consequently, the aggregate of the component materiality levels may exceed the group materiality level. The component materiality level is used when establishing the overall audit strategy for a component.

A44. Component materiality levels are determined for those components whose financial information will be audited or reviewed as part of the group audit in accordance with paragraphs 26, 27(a)

and 29. Component materiality is used by the component auditor to evaluate whether uncorrected detected misstatements are material, individually or in the aggregate.

A45. A threshold for misstatements is determined in addition to the component materiality levels. Misstatements identified in the financial information of the component that are above the threshold for misstatements are communicated to the group engagement team.

A46. In the case of an audit of the financial information of a component, the component auditor (or group engagement team) determines one or more amounts lower than the component materiality level for purposes of assessing the risks of material misstatement of the financial information of the component and to design further audit procedures in response to assessed risks.²² This is necessary to reduce the risk that the aggregate of detected and undetected misstatements in the financial information of the component exceeds the component materiality level. In practice, the group engagement team may set component materiality at this lower level. Where this is the case, the component auditor uses component materiality for purposes of assessing the risks of material misstatement of the financial information of the component and to design further audit procedures in response to assessed risks as well as for evaluating whether detected misstatements are material individually or in the aggregate.

Responding to Assessed Risks (Ref: Para. 24-25)

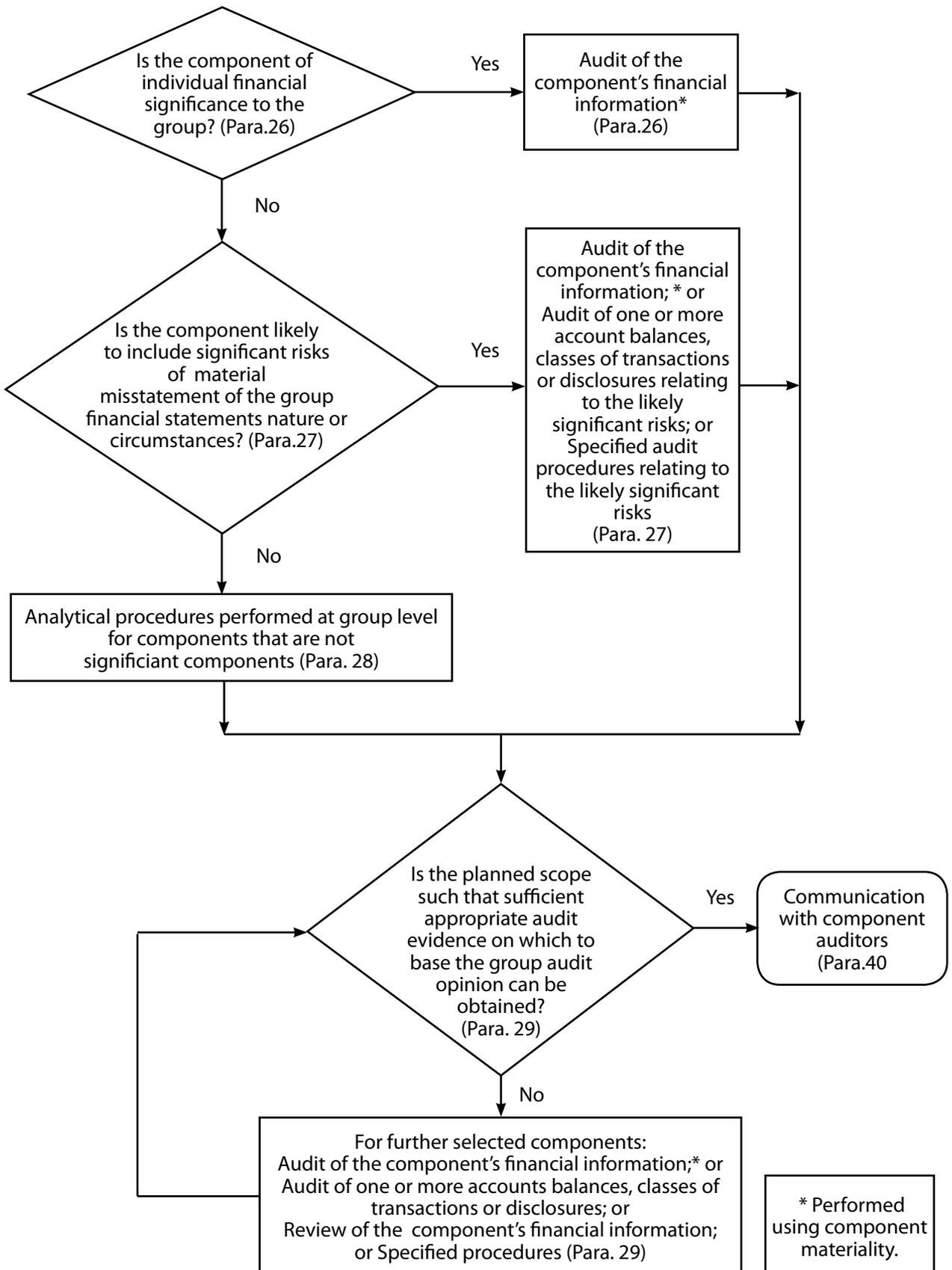
Determining the Type of Work to be performed on the Financial Information of Components (Ref: Para. 26-27)

A47. The group engagement team's determination of the type of work to be performed on the financial information of a component and its involvement in the work of the component auditor is affected by:

- (a) The significance of the component;
- (b) The identified significant risks of material misstatement of the group financial statements;
- (c) The group engagement team's evaluation of the design of group-wide controls and determination whether they have been implemented; and
- (d) The group engagement team's understanding of the component auditor. The diagram shows how the significance of the component affects the group engagement team's determination of the type of work to be performed on the financial information of the component.

²¹ SA 320 (AAS 13), "Audit Materiality" is being revised in the light of the corresponding International Standard.

²² See footnote 21.



Significant Components (Ref: Para. 27(b)-(c))

A48. The group engagement team may identify a component as a significant component because that component is likely to include significant risks of material misstatement of the group financial statements due to its specific nature or circumstances. In that case, the group engagement team may be able to identify the account balances, classes of transactions or disclosures affected by the likely significant risks. Where this is the case, the group engagement team may decide to perform, or request a component auditor to perform, an audit of only those account balances, classes of transactions or disclosures. For example, in the situation described in paragraph A6, the work on the financial information of the component may be limited to an audit of the account balances, classes of transactions and disclosures affected by the foreign exchange trading of that component. Where the group engagement team requests a component auditor to perform an audit of one or more specific account balances, classes of transactions or disclosures, the communication of the group engagement team (see paragraph 40) takes account of the fact that many financial statement items are interrelated.

A49. The group engagement team may design audit procedures that respond to a likely significant risk of material misstatement of the group financial statements. For example, in the case of a likely significant risk of inventory obsolescence, the group engagement team may perform, or request a component auditor to perform, specified audit procedures on the valuation of inventory at a component that holds a large volume of potentially obsolete inventory, but that is not otherwise significant.

Components that are Not Significant Components (Ref: Para. 28-29)

A50. Depending on the circumstances of the engagement, the financial information of the components may be aggregated at various levels for purposes of the analytical procedures. The results of the analytical procedures corroborate the group engagement team's conclusions that there are no significant risks of material misstatement of the aggregated financial information of components that are not significant components.

A51. The group engagement team's decision as to how many components to select in accordance with paragraph 29, which components to select, and the type of work to be performed

on the financial information of the individual components selected may be affected by factors such as the following:

- The extent of audit evidence expected to be obtained on the financial information of the significant components.
- Whether the component has been newly formed or acquired.
- Whether significant changes have taken place in the component.
- Whether internal audit has performed work at the component and any effect of that work on the group audit.
- Whether the components apply common systems and processes.
- The operating effectiveness of group-wide controls.
- Abnormal fluctuations identified by analytical procedures performed at group level.
- The individual financial significance of, or the risk posed by, the component in comparison with other components within this category.
- Whether the component is subject to audit required by statute, regulation or for another reason. Including an element of unpredictability in selecting components in this category may increase the likelihood of identifying material misstatement of the components' financial information. The selection of components is often varied on a cyclical basis.

A52. A review of the financial information of a component may be performed in accordance with Standard on Review Engagements (SRE) 2400²³ or SRE 2410,²⁴ adapted as necessary in the circumstances. The group engagement team may also specify additional procedures to supplement this work.

A53. As explained in paragraph A13, a group may consist only of components that are not significant components. In these circumstances, the group engagement team can obtain sufficient appropriate audit evidence on which to base the group audit opinion by determining the type of work to be performed on the financial information of the components in accordance with paragraph 29. It is unlikely that the group engagement team will obtain sufficient appropriate audit evidence on which to base the group audit opinion if the group engagement team,

²³ SRE 2400 (AAS 33), "Engagements to Review Financial Statements" is being revised in the light of the corresponding International Standards.

²⁴ At present there is no corresponding Indian Standard corresponding to ISRE 2410, "Review of Interim Financial Information Performed by the Auditor of the Entity". The AASB proposes to issue SRE 2410 corresponding to the International Standard in the near future.

or a component auditor, only tests group-wide controls and performs analytical procedures on the financial information of the components.

Involvement in the Work Performed by Component Auditors (Ref: Para. 30-31)

A54. Factors that may affect the group engagement team's involvement in the work of the component auditor include:

- (a) The significance of the component;
- (b) The identified significant risks of material misstatement of the group financial statements; and
- (c) The group engagement team's understanding of the component auditor.

In the case of a significant component or identified significant risks, the group engagement team performs the procedures described in paragraphs 30-31. In the case of a component that is not a significant component, the nature, timing and extent of the group engagement team's involvement in the work of the component auditor will vary based on the group engagement team's understanding of that component auditor. The fact that the component is not a significant component becomes secondary. For example, even though a component is not considered a significant component, the group engagement team nevertheless may decide to be involved in the component auditor's risk assessment, because it has less than serious concerns about the component auditor's professional competency (e.g., lack of industry specific knowledge), or the component auditor does not operate in an environment that actively oversees auditors.

A55. Forms of involvement in the work of a component auditor other than those described in paragraph 30-31 and 42 may, based on the group engagement team's understanding of the component auditor, include one or more of the following:

- (a) Meeting with component management or the component auditors to obtain an understanding of the component and its environment.
- (b) Reviewing the component auditors' overall audit strategy and audit plan.
- (c) Performing risks assessment procedures to identify and assess the risks of material misstatement at the component level. These may be performed with the component auditors, or by the group engagement team.
- (d) Designing and performing further audit procedures. These may be designed and performed with the component auditors, or by the group engagement team.
- (e) Participating in the closing and other key

meetings between the component auditors and component management.

- (f) Reviewing other relevant parts of the component auditors' audit documentation.

Consolidation Process

Consolidation Adjustments and Reclassifications (Ref: Para. 34)

A56. The consolidation process may require adjustments to amounts reported in the group financial statements that do not pass through the usual transaction processing systems, and may not be subject to the same internal controls to which other financial information is subject. The group engagement team's evaluation of the appropriateness, completeness and accuracy of the adjustments may include:

- Evaluating whether significant adjustments appropriately reflect the events and transactions underlying them;
- Determining whether significant adjustments have been correctly calculated, processed and authorised by group management and, where applicable, by component management;
- Determining whether significant adjustments are properly supported and sufficiently documented; and
- Checking the reconciliation and elimination of intra-group transactions and unrealised profits, and intra-group account balances.

Communication with the Component Auditor (Ref: Para. 40-41)

A57. If effective two-way communication between the group engagement team and the component auditors does not exist, there is a risk that the group engagement team may not obtain sufficient appropriate audit evidence on which to base the group audit opinion. Clear and timely communication of the group engagement team's requirements forms the basis of effective two-way communication between the group engagement team and the component auditor.

A58. The group engagement team's requirements are often communicated in a letter of instruction. Appendix 5 contains guidance on required and additional matters that may be included in such a letter of instruction. The component auditor's communication with the group engagement team often takes the form of a memorandum or report of work performed. Communication between the group engagement team and the component auditor, however, may not necessar-

ily be in writing. For example, the group engagement team may visit the component auditor to discuss identified significant risks or review relevant parts of the component auditor's audit documentation. Nevertheless, the documentation requirements of this and other SAs apply.

- A59. In cooperating with the group engagement team, the component auditor, for example, would provide the group engagement team with access to relevant audit documentation if not prohibited by law or regulation.
- A60. Where a member of the group engagement team is also a component auditor, the objective for the group engagement team to communicate clearly with the component auditor can often be achieved by means other than specific written communication. For example:
- Access by the component auditor to the overall audit strategy and audit plan may be sufficient to communicate the group engagement team's requirements set out in paragraph 40; and
 - A review of the component auditor's audit documentation by the group engagement team may be sufficient to communicate matters relevant to the group engagement team's conclusion set out in paragraph 41.

Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained

Reviewing the Component Auditor's Audit Documentation (Ref: Para. 42(b))

- A61. What parts of the audit documentation of the component auditor will be relevant to the group audit may vary depending on the circumstances. Often the focus is on audit documentation that is relevant to the significant risks of material misstatement of the group financial statements. The extent of the review may be affected by the fact that the component auditor's audit documentation has been subjected to the component auditor's firm's review procedures.

Sufficiency and Appropriateness of Audit Evidence (Ref: Para. 44-45)

- A62. If the group engagement team concludes that sufficient appropriate audit evidence on which to base the group audit opinion has not been obtained, the group engagement team may request the component auditor to perform additional procedures. If this is not feasible, the group engagement team may perform its own procedures on the financial information of the component.
- A63. The group engagement partner's evaluation of the aggregate effect of any misstatements (ei-

ther identified by the group engagement team or communicated by component auditors) allows the group engagement partner to determine whether the group financial statements as a whole are materially misstated.

Communication with Group Management and Those Charged with Governance of the Group

Communication with Group Management (Ref: Para. 46-48)

- A64. SA 240²⁵ contains requirements and guidance on communication of fraud to management and, where management may be involved in the fraud, to those charged with governance.
- A65. Group management may need to keep certain material sensitive information confidential. Examples of matters that may be significant to the financial statements of the component of which component management may be unaware include the following:
- Potential litigation
 - Plans for abandonment of material operating assets
 - Subsequent events
 - Significant legal agreements

Communication with Those Charged with Governance of the Group (Ref: Para. 49)

- A66. The matters the group engagement team communicates to those charged with governance of the group may include those brought to the attention of the group engagement team by component auditors that the group engagement team judges to be significant to the responsibilities of those charged with governance of the group. Communication with those charged with governance of the group takes place at various times during the group audit. For example, the matters referred to in paragraph 49(a)-(b) may be communicated after the group engagement team has determined the work to be performed on the financial information of the components. On the other hand, the matter referred to in paragraph 49(c) may be communicated at the end of the audit, and the matters referred to in paragraph 49(d)-(e) may be communicated when they occur.

Appendix 1

(Ref: Para. A19)

Example of a Qualified Opinion where the Group Engagement Team is Not Able to Obtain Sufficient Appropriate Audit Evidence on which to Base the Group Audit Opinion

In this example, the group engagement team is unable to obtain sufficient appropriate audit evidence relating to a significant component accounted for by the equity

²⁵ SA 240, paragraphs 40-42.

method (recognised at Rs.15 million in the balance sheet, which reflects total assets of Rs.60 million) because the group engagement team did not have access to the accounting records, management, or auditor of the component.

The group engagement team has read the audited financial statements of the component as of December 31, 20X1, including the auditor's report thereon, and considered related financial information kept by group management in relation to the component.

In the group engagement partner's judgment, the effect on the group financial statements of this inability to obtain sufficient appropriate audit evidence is material but not pervasive.

AUDITOR'S REPORT

[Appropriate Addressee]

Report on the Consolidated Financial Statements²⁶

We have audited the attached consolidated financial statements of ABC Company and its subsidiaries, which comprise the consolidated balance sheet as at December 31, 20X1, and the consolidated Profit and Loss Account and cash flow statement for the year then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and presentation of consolidated financial statements that give a true and fair view²⁷ in accordance with Accounting Standards generally accepted in India. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Standards on Auditing generally accepted in India. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and presentation of consolidated financial statements that give a true and fair view²⁸ of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.²⁹ An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

ABC Company's investment in XYZ Company, a foreign associate acquired during the year and accounted for by the equity method, is carried at Rs.15 million on the consolidated balance sheet as at December 31, 20X1, and ABC's share of XYZ's net income of Rs.1 million is included in the consolidated Profit and Loss Account for the year then ended. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of ABC's investment in XYZ as at December 31, 20X1 and ABC's share of XYZ's net income for the year because we were denied access to the financial information, management, and the auditors of XYZ. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements give a true and fair view of (or "present fairly, in all material respects") the financial position of ABC Company and its subsidiaries as of December 31, 20X1, and of their financial performance and cash flows for the year then ended in accordance with Accounting Standards generally accepted in India.

Report on Other Legal and Regulatory Requirements

[Form and content of this section of the auditor's report

²⁶ The sub-title "Report on the Consolidated Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

²⁷ Depending on the circumstances, this sentence may read: "Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Accounting Standards generally accepted in India."

²⁸ Depending on the circumstances, this sentence may read: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control."

²⁹ In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the consolidated financial statements, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances." In the case of footnote 28, the sentence may read: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and presentation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances."

will vary depending on the nature of the auditor's other reporting responsibilities.]

[Auditor's signature]

[Membership Number]

[Date of the auditor's report]

[Auditor's address]

If, in the group engagement partner's judgment, the effect on the group financial statements of the inability to obtain sufficient appropriate audit evidence is material and pervasive, the group engagement partner would disclaim an opinion in accordance with [proposed] SA 705 (Revised and Redrafted).

Appendix 2

(Ref: Para. A23)

Examples of Matters about which the Group Engagement Team Obtains an Understanding

The examples provided cover a broad range of matters; however, not all matters are relevant to every group audit engagement and the list of examples is not necessarily complete.

Group-wide Controls

1. Group-wide controls may include a combination of the following:
 - Regular meetings between group and component management to discuss business developments and to review performance.
 - Monitoring of components' operations and their financial results, including regular reporting routines, which enables group management to monitor components' performance against budgets, and to take appropriate action.
 - Group management's risk assessment process, i.e., the process for identifying, analysing and managing business risks, including the risk of fraud that may result in material misstatement of the group financial statements.
 - Monitoring, controlling, reconciling, and eliminating intra-group transactions and unrealised profits, and intra-group account balances at group level.
 - A process for monitoring the timeliness and assessing the accuracy and completeness of financial information received from components.
 - A central IT system controlled by the same general IT controls for all or part of the group.
 - Control activities within an IT system that is common for all or some components.
 - Monitoring of controls, including activities

of internal audit and self-assessment programs.

- Consistent policies and procedures, including a group financial reporting procedures manual.
 - Group-wide programs, such as codes of conduct and fraud prevention programs.
 - Arrangements for assigning authority and responsibility to component management.
2. Internal audit may be regarded as part of group-wide controls, for example, when the internal audit function is centralised. [Proposed] SA 610 (Redrafted)³⁰ deals with the group engagement team's evaluation of the competence and objectivity of the internal auditors where it plans to use their work.

Consolidation Process

3. The group engagement team's understanding of the consolidation process may include matters such as the following:

Matters relating to the applicable financial reporting framework:

- The extent to which component management has an understanding of the applicable financial reporting framework.
- The process for identifying and accounting for components in accordance with the applicable financial reporting framework.
- The process for identifying reportable segments for segment reporting in accordance with the applicable financial reporting framework.
- The process for identifying related party relationships and related party transactions for reporting in accordance with the applicable financial reporting framework.
- The accounting policies applied to the group financial statements changes from those of the previous financial year, and changes resulting from new or revised standards under the applicable financial reporting framework.
- The procedures for dealing with components with financial year-ends different from the group's year-end. Matters relating to the consolidation process:
- Group management's process for obtaining an understanding of the accounting policies used by components, and, where applicable, ensuring that uniform accounting policies are used to prepare the

³⁰ SA 610 (AAS 7), "Relying on the Work of Internal Auditor" is being revised in the light of the corresponding International Standard.

financial information of the components for the group financial statements, and that differences in accounting policies are identified, and adjusted where required in terms of the applicable financial reporting framework. Uniform accounting policies are the specific principles, bases, conventions, rules, and practices adopted by the group, based on the applicable financial reporting framework, that the components use to report similar transactions consistently. These policies are ordinarily described in the financial reporting procedures manual and reporting package issued by group management.

- Group management's process for ensuring complete, accurate and timely financial reporting by the components for the consolidation.
- The process for translating the financial information of foreign components into the currency of the group financial statements.
- How IT is organised for the consolidation, including the manual and automated stages of the process, and the manual and programmed controls in place at various stages of the consolidation process.
- Group management's process for obtaining information on subsequent events. Matters relating to consolidation adjustments:
- The process for recording consolidation adjustments, including the preparation, authorisation and processing of related journal entries, and the experience of personnel responsible for the consolidation.
- The consolidation adjustments required by the applicable financial reporting framework.
- Business rationale for the events and transactions that gave rise to the consolidation adjustments.
- Frequency, nature and size of transactions between components.
- Procedures for monitoring, controlling, reconciling and eliminating intra-group transactions and unrealised profits, and intra-group account balances.
- Steps taken to arrive at the fair value of acquired assets and liabilities, procedures for amortising goodwill (where applicable), and impairment testing of goodwill, in accordance with the applicable financial reporting framework.
- Arrangements with a majority owner or minority interests regarding losses incurred

by a component (for example, an obligation of the minority interest to make good such losses).

Appendix 3

(Ref: Para. A30)

Examples of Conditions or Events that may Indicate Risks of Material Misstatement of the Group Financial Statements

The examples provided cover a broad range of conditions or events; however, not all conditions or events are relevant to every group audit engagement and the list of examples is not necessarily complete.

- A complex group structure, especially where there are frequent acquisitions, disposals or reorganisations.
- Poor corporate governance structures, including decision-making processes that are not transparent.
- Non-existent or ineffective group-wide controls, including inadequate group management information on monitoring of components' operations and their results.
- Components operating in foreign jurisdictions that may be exposed to factors such as unusual government intervention in areas such as trade and fiscal policy, and restrictions on currency and dividend movements; and fluctuations in exchange rates.
- Business activities of components that involve high risk, such as long-term contracts or trading in innovative or complex financial instruments.
- Uncertainties regarding which components' financial information require incorporation in the group financial statements in accordance with the applicable financial reporting framework, for example whether any special-purpose entities or non-trading entities exist and require incorporation.
- Unusual related party relationships and transactions.
- Prior occurrences of intra-group account balances that did not balance or reconcile on consolidation.
- The existence of complex transactions that are accounted for in more than one component.
- Components' application of accounting policies that differ from those applied to the group financial statements.
- Components with different financial year-ends, which may be utilised to manipulate the timing of transactions.

- Prior occurrences of unauthorised or incomplete consolidation adjustments.
- Aggressive tax planning within the group, or large cash transactions with entities in tax havens.
- Frequent changes of auditors engaged to audit the financial statements of components.

Appendix 4

(Ref: Para. A35)

Examples of a Component Auditor's Confirmations

The following is not intended to be a standard letter. Confirmations may vary from one component auditor to another and from one period to the next. Confirmations often are obtained before work on the financial information of the component commences.

[Component Auditor Letterhead]

[Date]

[To Group Engagement Partner]

This letter is provided in connection with your audit of the group financial statements of [name of parent] for the year ended [date] for the purpose of expressing an opinion on whether the group financial statements give a true and fair view of (or "present fairly, in all material respects") the financial position of the group as of [date] and of its financial performance and cash flows for the year then ended in accordance with [indicate applicable financial reporting framework].

We acknowledge receipt of your instructions dated [date], requesting us to perform the specified work on the financial information of [name of component] for the year ended [date].

We confirm that:

1. We will be able to comply with the instructions/ We advise you that we will not be able to comply with the following instructions [specify instructions] for the following reasons [specify reasons].
2. The instructions are clear and we understand them/ We would appreciate it if you could clarify the following instructions [specify instructions].
3. We will cooperate with you and provide you with access to relevant audit documentation.

We acknowledge that:

1. The financial information of [name of component] will be included in the group financial statements of [name of parent].
2. You may consider it necessary to be involved in the work you have requested us to perform on the financial information of [name of component] for the year ended [date].

3. You intend to evaluate and, if considered appropriate, use our work for the audit of the group financial statements of [name of parent].

In connection with the work that we will perform on the financial information of [name of component], a [describe component, e.g., wholly-owned subsidiary, subsidiary, joint venture, investee accounted for by the equity or cost methods of accounting] of [name of parent], we confirm the following:

1. We have an understanding of [indicate relevant ethical requirements] that is sufficient to fulfill our responsibilities in the audit of the group financial statements, and will comply therewith. In particular, and with respect to [name of parent] and the other components in the group, we are independent within the meaning of [indicate relevant ethical requirements] and comply with the applicable requirements of [refer to rules] promulgated by [name of regulatory agency].
2. We have an understanding of Standards on Auditing that is sufficient to fulfill our responsibilities in the audit of the group financial statements and will conduct our work on the financial information of [name of component] for the year ended [date] in accordance with those standards.
3. We possess the special skills (e.g., industry specific knowledge) necessary to perform the work on the financial information of the particular component.
4. We have an understanding of [indicate applicable financial reporting framework or group financial reporting procedures manual] that is sufficient to fulfill our responsibilities in the audit of the group financial statements.

We will inform you of any changes in the above representations during the course of our work on the financial information of [name of component].

[Auditor's signature]

[Membership Number]

[Date]

[Auditor's address]

Appendix 5

(Ref: Para. A58)

Required and Additional Matters Included in the Group Engagement Team's Letter of Instruction

Matters required by this SA to be communicated to the component auditor are shown in italicised text.

Matters that is relevant to the planning of the work of the component auditor:

- A request for the component auditor, knowing the context in which the group

engagement team will use the work of the component auditor, to confirm that the component auditor will cooperate with the group engagement team.

- The timetable for completing the audit.
- Dates of planned visits by group management and the group engagement team, and dates of planned meetings with component management and the component auditor.
- A list of key contacts.
- The work to be performed by the component auditor, the use to be made of that work, and arrangements for coordinating efforts at the initial stage of and during the audit, including the group engagement team's planned involvement in the work of the component auditor.
- The ethical requirements that are relevant to the group audit and, in particular, the independence requirements.
- In the case of an audit or review of the financial information of the component, component materiality, and the threshold above which misstatements cannot be regarded as clearly trivial to the group financial statements.
- A list of related parties prepared by group management, and any other related parties that the group engagement team is aware of, and a request that the component auditor communicates on a timely basis to the group engagement team related parties not previously identified by group management or the group engagement team.
- Work to be performed on intra-group transactions and unrealised profits and intra-group account balances.
- Guidance on other statutory reporting responsibilities, for example reporting on group management's assertion on the effectiveness of internal control.
- Where time lag between completion of the work on the financial information of the components and the group engagement team's conclusion on the group financial statements is likely, specific instructions for a subsequent events review.

Matters that are relevant to the conduct of the work of the component auditor

- The findings of the group engagement team's tests of control activities of a processing system that is common for all or some components, and tests of controls to be performed by the component auditor.

- Identified significant risks of material misstatement of the group financial statements, due to fraud or error, that are relevant to the work of the component auditor, and a request that the component auditor communicates on a timely basis any other significant risks of material misstatement of the group financial statements, due to fraud or error, identified in the component and the component auditor's response to such risks.
- The findings of internal audit, based on work performed on controls at or relevant to components.
- A request for timely communication of audit evidence obtained from performing work on the financial information of the components that contradicts the audit evidence on which the group engagement team originally based the risk assessment performed at group level.
- A request for a written representation on component management's compliance with the applicable financial reporting framework, or a statement that differences between the accounting policies applied to the financial information of the component and those applied to the group financial statements have been disclosed.
- Matters to be documented by the component auditor.

Other information

- A request that the following be reported to the group engagement team on a timely basis:
 - Significant accounting, financial reporting and auditing matters, including accounting estimates and related judgments.
 - Matters relating to the going concern status of the component.
 - Matters relating to litigation and claims.
 - Material weaknesses in controls that have come to the attention of the component auditor during the performance of the work on the financial information of the component, and information that indicates the existence of fraud.
- A request that the group engagement team be notified of any significant or unusual events as early as possible.

A request that the matters listed in paragraph 41 be communicated to the group engagement team when the work on the financial information of the component is completed. □

Accounting Standard for Local Bodies (ASLB) Borrowing Costs

INVITATION TO COMMENT

The Committee on Accounting Standards for Local Bodies of the Institute of Chartered Accountants of India invites comments on any aspect of this Exposure Draft of Accounting Standard for Local Bodies (ASLB), Borrowing Costs. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable,

provide a suggestion for alternative wording.

Comments should be submitted in writing to the Secretary, Committee on Accounting Standards for Local Bodies, The Institute of Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi – 110 002, so as to be received not later than, **July 31, 2008**. Comments can also be sent by e-mail at caslb@icai.org or tdte@icai.org.

Exposure Draft Accounting Standard for Local Bodies (ASLB) Borrowing Costs

(This Accounting Standard includes paragraphs set in **bold italic** type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles. This Accounting Standard should be read in the context of its objective and the Preface to the Accounting Standards for Local Bodies¹)

The Accounting Standard for Local Bodies (ASLB), 'Borrowing Costs', issued by the Council of the Institute of Chartered Accountants of India, will be recommendatory in nature in the initial years for use by the local bodies. This Standard will be mandatory for local bodies in a State from the date specified in this regard by the State Government concerned².

The following is the text of the Accounting Standard for Local Bodies.

Objective

This Standard prescribes the accounting treatment for borrowing costs.

Scope

1. This Standard should be applied in accounting for borrowing costs.

2. This Standard applies to the enti-

ties described as Local Bodies in the Preface to the Accounting Standards for Local Bodies³ .

3. This Standard does not deal with the actual or imputed cost of net assets/equity. Where a capital charge is applied to individual entities, judgement will need to be exercised whether the charge meets the definition of borrowing costs or whether it should be treated as an actual or imputed cost of net assets/equity. Charges will be treated as borrowing costs only if it meets the definition of borrowing costs.

Definitions

4. The following terms are used in this Standard with the meanings specified:

Borrowing costs are interest and other costs incurred by an entity in connection with the borrowing of funds.

Control is the power to govern the financial and operating policies of another entity so as to benefit from its activities.

Controlled entity is an entity that is under

¹ Attention is specifically drawn to paragraph 4.2 of the 'Preface to the Accounting Standards for Local Bodies', according to which Accounting Standards are intended to apply only to items which are material.

² Reference may be made to the paragraph 7.1 of the 'Preface to the Accounting Standards for Local Bodies' providing the discussion on the compliance with the Accounting Standards for Local Bodies.

³ Refer paragraph 1.3 of the 'Preface to the Accounting Standards for Local Bodies'.

the control of another entity (known as the controlling entity).

Controlling entity is an entity that has one or more controlled entities.

Economic entity means a group of entities comprising a controlling entity and one or more controlled entities.

Net assets/equity is the residual interest in the assets of the entity after deducting all its liabilities.

Qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

Borrowing Costs

5. Borrowing costs may include:

- (a) interest and commitment charges on bank borrowings and other short-term and long-term borrowings;
- (b) amortisation of discounts or premiums relating to borrowings;
- (c) amortisation of ancillary costs incurred in connection with the arrangement of borrowings;
- (d) finance charges in respect of assets acquired under finance leases or under similar arrangements; and
- (e) exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. Exchange differences arising from foreign currency borrowings and considered as borrowing costs are those exchange differences, which arise on the amount of principal of the foreign currency borrowings to the extent of the difference between interest on local currency borrowings and interest on foreign currency borrowings. Thus, the amount of exchange difference not exceeding the difference between interest on local currency borrowings and interest on foreign currency borrowings is considered

as borrowing costs to be accounted for under this Standard and the remaining exchange difference, if any, will be accounted for under Accounting Standard for Local Bodies (ASLB) on 'The Effects of Changes in Foreign Exchange Rates'⁴. For this purpose, the interest rate for the local currency borrowings is considered as that rate at which the entity would have raised the borrowings locally had the entity not decided to raise the foreign currency borrowings. Guidance on accounting for the effects of changes in foreign exchange rates can be found in Accounting Standard (AS) 11, 'The Effects of Changes in Foreign Exchange Rates', until the ASLB on this subject is formulated.

The application of this explanation is illustrated in the Appendix A.

Economic Entity

6. The term "economic entity" is used in this Standard to define, for financial reporting purposes, a group of entities comprising the controlling entity and any controlled entities.

7. Other terms sometimes used to refer to an economic entity include "administrative entity", "financial entity", "consolidated entity" and "group".

8. An economic entity may include entities with both social policy and commercial objectives. For example, a local body may be an economic entity, which includes entities that provide services such as health care for a nominal charge, as well as entities that provide services on a commercial basis e.g., transport services.

Net Assets/Equity

9. "Net assets/equity" is the term used in this Standard to refer to the residual measure in the balance sheet (assets less liabilities). Net assets/equity may be positive or negative. Other terms may be used in place of net assets/equity, provided that their meaning is clear.

⁴The Accounting Standard for Local Bodies is under preparation.

Qualifying Assets

10. What constitutes a substantial period of time primarily depends on the facts and circumstances of each case. However, ordinarily, a period of twelve months is considered as substantial period of time unless a shorter or longer period can be justified on the basis of facts and circumstances of the case. In estimating the period, time that an asset takes, technologically and commercially, to get ready for its intended use or sale should be considered.

11. Examples of qualifying assets are office buildings, hospitals, infrastructure assets such as roads, bridges and power generation facilities, and inventories that require a substantial period of time to bring them to a condition ready for use or sale, and investment properties. Other investments and those inventories that are routinely produced over a short period of time, are not qualifying assets. Assets that are ready for their intended use or sale when acquired also are not qualifying assets.

Recognition

12. Borrowing costs should be recognised as an expense in the period in which they are incurred, except to the extent that they are capitalised in accordance with paragraph 13.

13. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalised as part of the cost of that asset. The amount of borrowing costs eligible for capitalisation should be determined in accordance with this Standard.

14. Borrowing costs are capitalised as part of the cost of a qualifying asset when it is probable that they will result in future economic benefits or service potential to the entity and the costs can be measured reliably. Other borrowing costs are recognised as an expense in the period in which they are incurred.

Borrowing Costs Eligible for Capitalisation

15. The borrowing costs that are directly

attributable to the acquisition, construction or production of a qualifying asset are those borrowing costs that would have been avoided if the expenditure on the qualifying asset had not been made. When an entity borrows funds specifically for the purpose of obtaining a particular qualifying asset, the borrowing costs that directly relate to that qualifying asset can be readily identified.

16. It may be difficult to identify a direct relationship between particular borrowings and a qualifying asset and to determine the borrowings that could otherwise have been avoided. Such a difficulty occurs, for example, when the financing activity of an entity is co-ordinated centrally. Difficulties also arise when an economic entity uses a range of debt instruments to borrow funds at varying rates of interest, and transfers those funds on various bases to other entities in the economic entity. Funds, which have been borrowed centrally, may be transferred to other entities within the economic entity as a loan, a grant or a capital injection. Such transfers may be interest-free or require that only a portion of the actual interest cost be recovered. Other complications arise through the use of loans denominated in or linked to foreign currencies and from fluctuations in exchange rates. As a result, the determination of the amount of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset is difficult and the exercise of judgment is required.

17. To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation on that asset should be determined as the actual borrowing costs incurred on that borrowing during the period less any income on the temporary investment of those borrowings.

18. The financing arrangements for a qualifying asset may result in an entity obtaining borrowed funds and incurring associated borrowing costs before some or all of the funds are used for expenditures on the qualifying asset. In such

circumstances, the funds are often temporarily invested pending their expenditures on the qualifying asset. In determining the amount of borrowing costs eligible for capitalisation during a period, any income earned on temporary investment of such funds is deducted from the borrowing costs incurred.

19. To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation should be determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate should be the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs capitalised during a period should not exceed the amount of borrowing costs incurred during that period.

The calculation of weighted average rate of borrowings is illustrated in Appendix B.

20. Only those borrowing costs applicable to the borrowings of the entity may be capitalised. When a controlling entity borrows funds which are passed on to a controlled entity with no, or only partial allocation of borrowing costs, the controlled entity may capitalise only those borrowing costs which it itself has incurred. Where a controlled entity receives an interest-free capital contribution or capital grant, it will not incur any borrowing costs and consequently will not capitalise any such costs.

21. When a controlling entity transfers funds at partial cost to a controlled entity, the controlled entity may capitalise that portion of borrowing costs which it itself has incurred. In the financial statements of the economic entity, the full amount of borrowing costs can be capitalised to the qualifying asset, provided that appropriate consolidation adjustments have been made to eliminate those costs capitalised by the controlled entity.

22. When a controlling entity has transferred

funds at no cost to a controlled entity, neither the controlling entity nor the controlled entity would meet the criteria for capitalisation of borrowing costs. However, if the economic entity met the criteria for capitalisation of borrowing costs, it would be able to capitalise the borrowing costs to the qualifying asset in its financial statements.

23. In some circumstances, it is appropriate to include all borrowings of the controlling entity and its controlled entities when computing a weighted average of the borrowing costs; in other circumstances, it is appropriate for each controlled entity to use a weighted average of the borrowing costs applicable to its own borrowings.

Excess of the Carrying Amount of the Qualifying Asset over Recoverable Amount

24. When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or net realisable value, the carrying amount is written down or written off in accordance with the requirements of other Accounting Standards for Local Bodies. In certain circumstances, the amount of the write-down or write-off is written back in accordance with those Accounting Standards.

Commencement of Capitalisation

25. The capitalisation of borrowing costs, as part of the cost of a qualifying asset should commence when all the following conditions are satisfied:

- (a) expenditure for the acquisition, construction or production of qualifying asset is being incurred;**
- (b) borrowing costs are being incurred; and**
- (c) activities that are necessary to prepare the asset for its intended use or sale are in progress.**

26. Expenditures on a qualifying asset include only such expenditures that have resulted in payments of cash, transfers of other assets or the assumption of interest bearing liabilities.

The expenditure is reduced by any progress payments received and grants received in connection with the asset. The average carrying amount of the asset during a period, including borrowing costs previously capitalised, is normally a reasonable approximation of the expenditures to which the capitalisation rate is applied in that period.

27. The activities necessary to prepare the asset for its intended use or sale encompass more than the physical construction of the asset. They include technical and administrative work prior to the commencement of physical construction, such as the activities associated with obtaining permits prior to the commencement of the physical construction. However, such activities exclude the holding of an asset when no production or development that changes the asset's condition is taking place. For example, borrowing costs incurred while land is under development are capitalised during the period in which activities related to the development are being undertaken. However, borrowing costs incurred while land acquired for building purposes is held without any associated development activity do not qualify for capitalisation.

Suspension of Capitalisation

28. Capitalisation of borrowing costs should be suspended during extended periods in which active development is interrupted. Such borrowing costs are expensed.

29. Borrowing costs may be incurred during an extended period in which the activities necessary to prepare an asset for its intended use or sale are interrupted. Such costs are costs of holding partially completed assets and do not qualify for capitalisation. However, capitalisation of borrowing costs is not normally suspended during a period when substantial technical and administrative work is being carried out. Capitalisation of borrowing costs is also not suspended when a temporary delay is a necessary part of the process of getting an asset ready for its intended use or sale. For example, capitalisation continues during the extended period needed for inventories to

mature or the extended period during which high water levels delay construction of a bridge, if such high water levels are common during the construction period in the geographic region involved.

Cessation of Capitalisation

30. Capitalisation of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

31. An asset is normally ready for its intended use or sale when the physical construction of the asset is complete even though routine administrative work might still continue. If minor modifications, such as the decoration of a property to the purchaser's or user's specification, are all that is outstanding, this indicates that substantially all the activities are complete.

32. When the construction of a qualifying asset is completed in parts and a completed part is capable of being used while construction continues for the other parts, capitalisation of borrowing costs in relation to a part should cease when substantially all the activities necessary to prepare that part for its intended use or sale are completed.

33. Example of a qualifying asset for which each part is capable of being used while construction continues for the other parts is an office development comprising several buildings, each of which can be used individually.

34. Examples of qualifying assets that need to be completed before any part can be used include an operating theatre in a hospital when all construction must be complete before the theatre may be used; a sewage treatment plant where several processes are carried out in sequence at different parts of the plant; and a bridge forming part of a highway. In such cases, capitalisation of borrowing costs should be continued.

Disclosure

35. The financial statements should disclose:

(a) the accounting policy adopted for borrowing costs;

- (b) **the amount of borrowing costs capitalised during the period; and**
- (c) **the capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation (when it was necessary to apply a capitalisation rate to funds borrowed generally).**

$$\begin{aligned} \text{rency borrowing} &= \text{Rs.}49,500 - \text{Rs.}24,000 \\ &= \text{Rs.}25,500 \end{aligned}$$

Therefore, out of Rs.30,000 increase in the liability towards principal amount, only Rs.25,500 will be considered as the borrowing cost. Thus, total borrowing cost would be Rs.49,500 being the aggregate of interest of Rs.24,000 on foreign currency borrowings (covered by paragraph 4(a) of this *Accounting Standard for Local Bodies*) plus the exchange difference to the extent of difference between interest on local currency borrowing and interest on foreign currency borrowing of Rs.25,500. Thus, Rs.49,500 would be considered as the borrowing cost to be accounted for as per this *Accounting Standard for Local Bodies* and the remaining Rs.4,500 would be considered as the exchange difference to be accounted for as per *Accounting Standard for Local Bodies (ASLB)* on 'The Effects of Changes in Foreign Exchange Rates'⁵. Guidance on accounting for the effects of changes in foreign exchange rates can be found in Accounting Standard (AS) 11, 'The Effects of Changes in Foreign Exchange Rates', until the ASLB on this subject is formulated.

In the above example, if the interest rate on local currency borrowings is assumed to be 13% instead of 11%, the entire exchange difference of Rs.30,000 would be considered as borrowing costs, since in that case the difference between the interest on local currency borrowings and foreign currency borrowings (i.e., Rs.34,500 (Rs.58,500 – Rs.24,000)) is more than the exchange difference of Rs.30,000. Therefore, in such a case, the total borrowing cost would be Rs.54,000 (Rs.24,000 + Rs.30,000), which would be accounted for under this Accounting Standard for Local Bodies, and there would be no exchange difference to be accounted for under proposed ASLB on 'The Effects of Changes in Foreign Exchange Rates'.

Appendix B

Illustration 2

Note: This appendix is illustrative only and does

Transitional Provisions

36. An entity shall apply this standard prospectively.

Appendix A

Illustration 1

Note: This appendix is illustrative only and does not form part of the Accounting Standard. Its purpose is to assist in clarifying the meaning of the paragraph 4 (e) of the standard.

Facts:

Local Body XYZ has taken a loan of USD 10,000 on April 1, 20X3, for a specific project at an interest rate of 5% p.a., payable annually. On April 1, 20X3, the exchange rate between the currencies was Rs.45 per USD. The exchange rate, as at March 31, 20X4, is Rs.48 per USD. The corresponding amount could have been borrowed by Local Body XYZ in local currency at an interest rate of 11 per cent per annum as on April 1, 20X3.

The following computation would be made to determine the amount of borrowing costs for the purposes of paragraph 4(e) of this Accounting Standard for Local Bodies:

- (i) Interest for the period = USD 10,000 x 5% x Rs.48/USD = Rs.24,000/-
- (ii) Increase in the liability towards the principal amount = USD 10,000 x (48-45) = Rs.30,000/-
- (iii) Interest that would have resulted if the loan was taken in Indian currency = USD 10000 x 45 x 11% = Rs.49,500
- (iv) Difference between interest on local currency borrowing and foreign cur-

⁵ The Accounting Standard for Local Bodies is under preparation.

not form part of the Accounting Standard. Its purpose is to assist in clarifying the meaning of the paragraph 19 of the standard.

Facts:

Local Body XYZ has the following loans with the different rates of interest during the year 20X7-X8:

Rs.10,00,000 @ 8%

Rs.15,00,000 @ 9%

Rs.18,00,000 @ 10%

Local Body XYZ incurs certain expenditure in constructing an asset meeting the definition of qualifying asset from the above-borrowed amounts. Local Body XYZ has not taken the above loans specifically for the purpose of qualifying asset for which borrowing cost is to be capitalised and included in its cost.

The capitalisation rate for determining the amount of borrowing cost eligible for capitalisation will be the weighted-average interest rate, which may be computed as follows:

Rs.10,00,000 x 8%	=	Rs.80,000
Rs.15,00,000 x 9%	=	Rs.1,35,000
Rs.18,00,000 x 10%	=	<u>Rs.1,80,000</u>
		<u>Rs.3,95,000</u>

Weighted-average interest rate = $\frac{\text{Rs.3,95,000}}{\text{Rs.43,00,000}} = 9.19\%$

Borrowing cost at a 9.19% interest rate will be applied to the expenditure incurred on the qualifying asset for determining the borrowing costs eligible for capitalisation. If out of the above three loans, one is taken specifically for the purpose of obtaining the qualifying asset, borrowing cost will be determined using the interest rate applicable to that loan for the expenditure incurred to the amount of the loan. Borrowing costs for any remaining amount of expenditure will be calculated for capitalisation at the weighted-average interest rate for the remaining two loans.

Appendix C

Note: This Appendix is not a part of the Accounting Standard for Local bodies. The purpose of this appendix is only to bring out the major differences between this Accounting Standard for Local Bodies (ASLB) and the corresponding International Public Sector Accounting Standard (IPSAS) 5, Borrowing Costs issued by International Public Sector Accounting Standards Board.

COMPARISON WITH IPSAS 5, BORROWING COSTS

1. Capitalisation of Borrowing Costs

IPSAS 5 prescribes the expensing of the borrowing costs as 'benchmark treatment'. However in relation to the borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset, it provides an option of capitalising such borrowing costs in the cost of that asset.

As compared to above, the Exposure draft of ASLB does not provide the option as IPSAS 5. It requires that the borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalised as part of the cost of that asset only.

2. Substantial Period of Time

IPSAS 5 does not provide the meaning of the expression 'substantial period of time'. It provides only examples of the qualifying Asset requiring the substantial period of time.

Exposure Draft of ASLB provides the interpretation of the expression 'substantial period of time'. It provides that ordinarily, a period of twelve months is considered as substantial period of time unless a shorter or longer period can be justified on the basis of facts and circumstances of the case.

3. Commitment Charges

Exposure Draft ASLB provides that the Borrowing Costs may include commitment charges on bank borrowings. However, IPSAS 5 does not provide for including the commitment charges on bank borrowings. □

Accounting Standard for Local Bodies (ASLB) Revenue from Exchange Transactions

INVITATION TO COMMENT

The Committee on Accounting Standards for Local Bodies of the Institute of Chartered Accountants of India invites comments on any aspect of this Exposure Draft of Accounting Standard for Local Bodies (ASLB), Revenue from Exchange Transactions. The Committee would particularly welcome answers to the questions set out below. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

Comments should be submitted in writing to the Secretary, Committee on Accounting Standards for Local Bodies, The Institute of Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi – 110 002, so as to be received not later than **July 31, 2008**. Comments can also be sent by e-mail at caslb@icai.org or tdte@icai.org.

Question 1 - Definition of the term Exchange Transaction

International Public Sector Accounting Standard (IPSAS) 9 'Revenue from Exchange Transactions' issued by International Public Sector Accounting Standards Board (IPSASB) defines a transaction as an exchange transaction, in which one entity receives assets or services, or has liabilities extinguished and directly gives approximately equal value to other party in exchange. For determining whether there is exchange of approximately equal value requires determining the fair value of the consideration given and received.

The Exposure draft of proposed ASLB does not require to determine the fair value of the consideration exchanged, rather it requires that there must be exchange of some value in a transaction which may not be equal to the fair value of the consideration exchanged to be termed as an exchange transaction.

Do you agree with the above change in the definition from the corresponding definition in IPSAS 9?

Exposure Draft Accounting Standard for Local Bodies (ASLB) Revenue from Exchange Transactions

*(This Accounting Standard includes paragraphs set in **bold italic** type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles. This Accounting Standard should be read in the context of its objective and the Preface to the Accounting Standards for Local Bodies¹)*

The Accounting Standard for Local Bodies (ASLB), 'Revenue from Exchange Transactions', issued by the Council of the Institute of Chartered Accountants of India, will be recommendatory

in nature in the initial years for use by the local bodies. This Standard will be mandatory for Local Bodies in a State from the date specified in this regard by the State Government concerned².

The following is the text of the Accounting Standard for Local Bodies.

Objective

This Standard uses the term "revenue", which encompasses both revenues and gains, in place of the term "income". Certain specific items to be

¹ Attention is specifically drawn to paragraph 4.2 of the 'Preface to the Accounting Standards for Local Bodies', according to which Accounting Standards are intended to apply only to items which are material.

² Reference may be made to the paragraph 7.1 of the 'Preface to the Accounting Standards for Local Bodies' providing the discussion on the compliance with the Accounting Standards for Local Bodies.

recognised as revenues are addressed in other Standards and are excluded from the scope of this Standard. For example, gains arising on the sale of property, plant and equipment will be specifically addressed in the Standard on property, plant and equipment³ and are not covered in this Standard. Guidance on accounting for fixed assets can be found in Accounting Standard (AS) 10, *Accounting for Fixed Assets*, until the ASLB on this subject is formulated.

The objective of this Standard is to prescribe the accounting treatment of revenue arising from exchange transactions and events. The primary issue in accounting for revenue is determining when to recognise revenue. Revenue is recognised when it is probable that future economic benefits or service potential will flow to the entity and these benefits can be measured reliably. This Standard identifies the circumstances in which these criteria will be met and, therefore, revenue will be recognised. It also provides practical guidance on the application of these criteria.

Scope

1. This Standard applies to the entities described as Local Bodies in the Preface to the Accounting Standards for Local Bodies⁴.

2. An entity, which prepares and presents financial statements under the accrual basis of accounting should apply this Standard in accounting for revenue arising from the following exchange transactions and events:

- (a) The rendering of services yielding revenue;**
- (b) The sale of goods; and**
- (c) The use by others of entity assets yielding interest, royalties and dividends.**

3. This Standard does not deal with revenue arising

from non-exchange transactions. Revenue arising from non-exchange transactions will be dealt with in the proposed Standard on *Revenue arising from Non-exchange Transactions*⁵. Examples of non-exchange transactions include revenue from the use of statutory powers (for example, taxes, duties, and fines), grants and donations.

4. Local Bodies may derive revenues from exchange or non-exchange transactions. An exchange transaction is one in which the entity receives assets or services, or has liabilities extinguished, and gives some value (primarily in the form of cash, goods, services or use of assets) to the other party in exchange. Examples of exchange transactions include:

- (a) The purchase or sale of goods or services; or
- (b) The lease of property, plant and equipment

5. The rendering of services typically involves the performance by the entity of an agreed task over an agreed period of time. The services may be rendered within a single period or over more than one period. Examples of services rendered by local bodies for which revenue is typically received in exchange may include the provision of housing and shopping complexes, management of water facilities, management of toll roads, and management of transfer payments. Some agreements for rendering of services are directly related to the construction contracts. Revenue arising from construction contracts will be dealt with in the proposed ASLB, *Construction Contracts*⁶. Guidance on accounting for revenue arising from construction contracts can be found in Accounting Standard (AS) 7; *Construction Contracts* until the ASLB on this subject is formulated.

6. Goods include goods produced by the entity for the purpose of sale, such as publications, and

³ The proposed ASLB on *Property, Plant and Equipment* is under preparation.

⁴ Refer paragraph 1.3 of the *Preface to the Accounting Standards for Local Bodies*.

⁵ The proposed ASLB on *Revenue from Non-exchange Transactions* is under preparation.

⁶ The proposed ASLB on *Construction Contracts* is under preparation.

goods purchased for resale, such as merchandise or land and other property held for resale.

7. The use by others of entity assets gives rise to revenue in the form of:

- (a) Interest — charges for the use of cash or cash equivalents or amounts due to the entity;
- (b) Royalties — charges for the use of long-term assets of the entity, for example, patents, trademarks, copyrights and computer software; and
- (c) Dividends or equivalents — distributions of surpluses to holders of equity investments in proportion to their holdings of a particular class of capital.

8. This Standard does not deal with revenues arising from:

- (i) Lease agreements (Guidance on accounting for revenue arising from lease agreements can be found in Accounting Standard (AS) 19, 'Leases', until the ASLB on this subject is formulated);
- (ii) Dividends from investments which are accounted for under the equity method (Guidance on accounting for associates can be found in Accounting Standard (AS) 23, 'Accounting for Investments in Associates in Consolidated Financial Statements', until the ASLB on this subject is formulated);
- (iii) Gains from the sale of property, plant and equipment (which will be dealt with in proposed ASLB, 'Property, Plant and Equipment'⁷, guidance on accounting for fixed assets can be found in Accounting Standard (AS) 10, 'Accounting for Fixed Assets', until the ASLB on this subject is formulated.)
- (iv) Insurance contracts of insurance entities;
- (v) Changes in the fair value of financial

assets and financial liabilities or their disposal (Guidance on accounting for financial instruments can be found in Accounting Standard 30, 'Financial Instruments: Recognition and Measurement' until the ASLB on this subject is formulated);

- (vi) Changes in the value of other current assets;
- (vii) Natural increases in herds, and agricultural and forest products; and
- (viii) Extraction of mineral ores.

Definitions

9. The following terms are used in this Standard with the meanings specified:

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity, other than increases relating to contributions from owners.

Revenue

10. Revenue includes only the gross inflows of economic benefits or service potential received and receivable by the entity on its own account. Amounts collected as agent of the government or another government organisation or on behalf of other third parties are not economic benefits or service potential which flow to the entity and do not result in increases in assets or decreases in liabilities. Therefore, they are excluded from revenue. Similarly, in a custodial or agency relationship, the gross inflows of economic benefits or service potential include amounts collected on behalf of the principal and which do not result in increases in net assets/equity for the entity. The amounts collected on behalf of

⁷ The proposed ASLB, 'Property, Plant and Equipment' is under preparation.

the principal are not revenue. Instead, revenue is the amount of any commission received or receivable for the collection or handling of the gross flows.

11. Financing inflows, notably borrowings, do not meet the definition of revenue because they result in an equal change in both assets and liabilities and have no impact upon net assets/equity. Financing inflows are taken directly to the statement of financial position and added to the balances of assets and liabilities.

Measurement of Revenue

12. Revenue should be measured at the fair value of the consideration received or receivable.

13. The amount of revenue arising on a transaction is usually determined by agreement between the entity and the purchaser or user of the asset or service. It is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by the entity.

14. In most cases, the consideration is in the form of cash or cash equivalents and the amount of revenue is the amount of cash or cash equivalents received or receivable. However, when the inflow of cash or cash equivalents is deferred, the fair value of the consideration may be less than the nominal amount of cash received or receivable. For example, an entity may provide interest free credit to the purchaser or accept a note receivable bearing a below-market interest rate from the purchaser as consideration for the sale of goods. When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest, where the effect of time value of money is material. Ordinarily, when the inflow of cash or cash equivalents is deferred beyond a period of twelve months, the effect of time value of money is likely to be material. The imputed

rate of interest is the more clearly determinable of either:

- (a) The prevailing rate for a similar instrument of an issuer with a similar credit rating; or
- (b) A rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services.

The difference between the fair value and the nominal amount of the consideration is recognised as interest revenue in accordance with paragraphs 31 and 32.

15. When goods or services are exchanged or swapped for goods or services, which are of a similar nature and value, the exchange is not regarded as a transaction, which generates revenue. This is often the case with commodities where suppliers exchange or swap inventories in various locations to fulfill demand on a timely basis in a particular location. When goods are sold or services are rendered in exchange for dissimilar goods or services, the exchange is regarded as a transaction, which generates revenue. The revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

Identification of the Transaction

16. The recognition criteria in this Standard are usually applied separately to each transaction. However, in certain circumstances, it is necessary to apply the recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction. For example, when the price of a product includes an identifiable amount

for subsequent servicing, that amount is deferred and recognised as revenue over the period during which the service is performed. Conversely, the recognition criteria are applied to two or more transactions together when they are linked in such a way that the effect cannot be understood without reference to the series of transactions as a whole. For example, an entity may sell goods and, at the same time, enter into a separate agreement to repurchase the goods at a later date, thus negating the substantive effect of the transaction; in such a case, the two transactions are dealt with together.

Rendering of Services

17. When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction should be recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- (a) The amount of revenue can be measured reliably;**
- (b) It is probable that the economic benefits or service potential associated with the transaction will flow to the entity;**
- (c) The stage of completion of the transaction at the reporting date can be measured reliably; and**
- (d) The costs incurred for the transaction and the costs to complete the transaction can be measured reliably.**

18. The recognition of revenue by reference to the stage of completion of a transaction is often referred to as the percentage of completion method. Under this method, revenue is recognised in the reporting periods in which the services are rendered. For example, an entity providing property valuation services would recognise revenue as the individual valuations

are completed. The recognition of revenue on this basis provides useful information on the extent of service activity and performance during a period.

19. Revenue is recognised only when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. However, when an uncertainty arises about the collectability of an amount already included in revenue, the uncollectable amount, or the amount in respect of which recovery has ceased to be probable, is recognised as an expense, rather than as an adjustment of the amount of revenue originally recognised.

20. An entity is generally able to make reliable estimates after it has agreed to the following with the other parties to the transaction:

- (a) Each party's enforceable rights regarding the service to be provided and received by the parties;
- (b) The consideration to be exchanged; and
- (c) The manner and terms of settlement.

It is also usually necessary for the entity to have an effective internal financial budgeting and reporting system. The entity reviews and, when necessary, revises the estimates of revenue as the service is performed. The need for such revisions does not necessarily indicate that the outcome of the transaction cannot be estimated reliably.

21. The stage of completion of a transaction may be determined by a variety of methods. An entity uses the method that measures reliably the services performed. Depending on the nature of the transaction, the methods may include:

- (a) Surveys of work performed;
- (b) Services performed to date as a percentage of total services to be performed; or

- (c) The proportion that costs incurred to date bear to the estimated total costs of the transaction. Only costs that reflect services performed to date are included in costs incurred to date. Only costs that reflect services performed or to be performed are included in the estimated total costs of the transaction.

Progress payments and advances received from customers often do not reflect the services performed.

22. For practical purposes, when services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight-line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

23. When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue should be recognised only to the extent of the expenses recognised that are recoverable.

24. During the early stages of a transaction, it is often the case that the outcome of the transaction cannot be estimated reliably. Nevertheless, it may be probable that the entity will recover the transaction costs incurred. Therefore, revenue is recognised only to the extent of costs incurred that are expected to be recoverable. As the outcome of the transaction cannot be estimated reliably, no surplus is recognised.

25. When the outcome of a transaction cannot be estimated reliably and it is not probable that the costs incurred will be recovered, revenue is not recognised and the costs incurred are recognised as an expense. When the uncertainties that prevented the outcome of the contract being estimated reliably no longer exist, revenue is recognised in accordance with

paragraph 17 rather than in accordance with paragraph 23.

Sale of Goods

26. Revenue from the sale of goods should be recognised when all the following conditions have been satisfied:

- (a) The entity has transferred to the purchaser the significant risks and rewards of ownership of the goods;**
- (b) The entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;**
- (c) The amount of revenue can be measured reliably;**
- (d) It is probable that the economic benefits or service potential associated with the transaction will flow to the entity; and**
- (e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.**

27. The assessment of when an entity has transferred the significant risks and rewards of ownership to the purchaser requires an examination of the circumstances of the transaction. In most cases, the transfer of the risks and rewards of ownership coincides with the transfer of the legal title or the passing of possession to the purchaser. This is the case for most sales. However, in certain other cases, the transfer of risks and rewards of ownership occurs at a different time from the transfer of legal title or the passing of possession.

28. If the entity retains significant risks of ownership, the transaction is not a sale and revenue is not recognised. An entity may retain a significant risk of ownership in a number of ways. Examples of situations in which the entity may retain the significant risks and rewards of ownership are:

- (a) When the entity retains an obligation for unsatisfactory performance not covered by normal warranty provisions;
- (b) When the receipt of the revenue from a particular sale is contingent on the derivation of revenue by the purchaser from its sale of the goods (for example, where a local body distributes educational material to schools on a sale or return basis);
- (c) When the goods are shipped subject to installation and the installation is a significant part of the contract which has not yet been completed by the entity; and
- (d) When the purchaser has the right to rescind the purchase for a reason specified in the sales contract and the entity is uncertain about the probability of return.

29. If an entity retains only an insignificant risk of ownership, the transaction is a sale and revenue is recognised. For example, a seller may retain the legal title to the goods solely to protect the collectability of the amount due. In such a case, if the entity has transferred the significant risks and rewards of ownership, the transaction is a sale and revenue is recognised. Another example of an entity retaining only an insignificant risk of ownership may be a sale when a refund is offered if the purchaser is not satisfied. Revenue in such cases is recognised at the time of sale provided the seller can reliably estimate future returns and recognises a liability for returns based on previous experience and other relevant factors.

30. Revenue is recognised only when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. In some cases, this may not be probable until the consideration is received or until an uncertainty is removed. For example, the revenue may be dependent upon the ability

of another entity to supply goods as part of the contract and if there is any doubt that this will occur, recognition may be delayed until it has occurred. When the goods are supplied, the uncertainty is removed and revenue is recognised. However, when an uncertainty arises about the collectability of an amount already included in revenue, the uncollectable amount, or the amount in respect of which recovery has ceased to be probable, is recognised as an expense, rather than as an adjustment of the amount of revenue originally recognised.

Interest, Royalties and Dividends

31. Revenue arising from the use by others of entity assets yielding interest, royalties and dividends should be recognised using the accounting treatments set out in paragraph 32 when:

- (a) It is probable that the economic benefits or service potential associated with the transaction will flow to the entity; and**
- (b) The amount of the revenue can be measured reliably.**

32. Revenue should be recognised using the following accounting treatments:

- (a) Interest should be recognised on a time proportion basis that takes into account the effective yield on the asset;**
- (b) Royalties should be recognised as they are earned in accordance with the substance of the relevant agreement; and**
- (c) Dividends or equivalents should be recognised when the shareholder's or the entity's right to receive payment is established.**

33. The effective yield on an asset is the rate of interest required to discount the stream of future cash receipts expected over the life of the

asset to equate to the initial carrying amount of the asset. Interest revenue includes the amount of amortisation of any discount, premium or other difference between the initial carrying amount of a debt security and its amount at maturity.

The calculation of effective yield rate and its application is illustrated in Appendix A.

34. When unpaid interest has accrued before the acquisition of an interest-bearing investment, the subsequent receipt of interest is allocated between pre-acquisition and post-acquisition periods; only the post-acquisition portion is recognised as revenue. When dividends on equity securities are declared from pre-acquisition net surplus, those dividends are deducted from the cost of the securities. If it is difficult to make such an allocation except on an arbitrary basis, dividends are recognised as revenue unless they clearly represent a recovery of part of the cost of the equity securities.

35. Royalties accrue in accordance with the terms of the relevant agreement and are usually recognised on that basis unless, having regard to the substance of the agreement, it is more appropriate to recognise revenue on some other systematic and rational basis.

36. Revenue is recognised only when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. However, when an uncertainty arises about the collectability of an amount already included in revenue, the uncollectable amount, or the amount in respect of which recovery has ceased to be probable, is recognised as an expense, rather than as an adjustment of the amount of revenue originally recognised.

Disclosure

37. An entity should disclose:

(a) The accounting policies adopted for

the recognition of revenue including the methods adopted to determine the stage of completion of transactions involving the rendering of services;

(b) The amount of each significant category of revenue recognised during the period including revenue arising from:

(i) The rendering of services yielding revenue;

(ii) The sale of goods;

(iii) Interest;

(iv) Royalties; and

(v) Dividends or their equivalents; and

(c) The amount of revenue arising from exchange of goods or services included in each significant category of revenue.

38. Guidance on disclosure of any contingent assets and contingent liabilities can be found in (AS) 29, 'Provisions, Contingent Liabilities and Contingent Assets'⁸, until the ASLB on this subject is formulated. Contingent assets and contingent liabilities may arise from items such as warranty costs, claims, penalties or possible losses.

Appendix A

The appendix is illustrative only and does not form part of the Standard. The purpose of the appendix is to illustrate the application of the Standard to assist in clarifying its meaning in a number of situations. The examples focus on particular aspects of a transaction and are not a comprehensive discussion of all the relevant factors, which might influence the recognition of revenue. The examples generally assume that the amount of revenue can be measured reliably; it is probable that the economic benefits or service potential will flow to the entity and the costs incurred or to be incurred can be measured reliably. The examples do not modify or override the Standard.

⁸ The proposed ASLB on 'Provisions, Contingent liabilities and Contingent Assets' is under preparation.

Local Bodies derive revenues from exchange or non-exchange transactions. This Standard deals only with revenue arising from exchange transactions. Revenue from exchange transactions is derived from:

- (a) Sale of goods or provision of services to third parties;
- (b) Sale of goods or provision of services to other government agencies; and
- (c) The use by others of entity assets yielding interest, royalties and dividends.

Rendering of Services

1. *Rentals*

Rental income from the provision of municipal properties like shopping complexes is recognised as the income is earned in accordance with the terms of the tenancy agreement.

2. *Transport*

Revenue from fares charged to passengers for the provision of transport is recognised as the transport is provided.

3. *Management of toll roads*

Revenue from the management of toll roads is recognised as it is earned, based on the usage of the roads.

4. *Management of facilities, assets or services*

Revenue from the management of facilities, assets or services is recognised over the term of the contract as the management services are provided.

5. *Installation fees*

Installation fees are recognised as revenue by reference to the stage of completion of the installation, unless they are incidental to the sale of a product in which case they are recognised when the goods are sold.

6. *Servicing fees included in the price of the product*

When the selling price of a product includes an identifiable amount for subsequent servicing (for example, after sales support on the sale of certain goods), that amount is deferred and recognised as revenue over the period during which the service is performed. The amount deferred is that which will cover the expected costs of the services under the agreement, together with a reasonable return on those services.

7. *Admission fees*

Revenue from artistic performances, banquets and other special events is recognised when the event takes place. When a subscription to a number of events is sold, the fee is allocated to each event on a basis, which reflects the extent to which services are performed at each event.

8. *Tuition fees*

Revenue is recognised over the period of instruction.

9. *Initiation, entrance and membership fees*

Revenue recognition depends on the nature of the services provided. If the fee permits only membership, and all other services or products are paid for separately e.g., library fees, or if there is a separate annual subscription, the fee is recognised as revenue when no significant uncertainty as to its collectability exists. If the fee entitles the member to services or publications to be provided during the membership period, or to purchase goods or services at prices lower than those charged to non-members, it is recognised on a basis that reflects the timing, nature and value of the benefits provided.

10. *Franchise or concession fees*

Franchise or concession fees may cover the supply of initial and subsequent services, equipment and other tangible assets, and know-how. Accordingly, franchise or concession fees are recognised as revenue on a basis that reflects the purpose for which the fees were

charged. The following methods of franchise or concession fee recognition are appropriate:

- (a) Supplies of equipment and other tangible assets

The amount, based on the fair value of the assets sold, is recognised as revenue when the items are delivered or title passes.

- (b) Supplies of initial and subsequent services

Fees for the provision of continuing services, whether part of the initial fee or a separate fee, are recognised as revenue as the services are rendered. When the separate fee does not cover the cost of continuing services together with a reasonable return, part of the initial fee, sufficient to cover the costs of continuing services and to provide a reasonable return on those services, is deferred and recognised as revenue as the services are rendered.

- (c) *Continuing franchise or concession fees*

Fees charged for the use of continuing rights granted by the agreement, or for other services provided during the period of the agreement, are recognised as revenue as the services are provided or the rights used.

- (d) *Agency transactions*

Transactions may take place between the franchisor and the franchisee which, in substance, involve the franchisor acting as agent for the franchisee. For example, the franchisor may order supplies and arrange for their delivery to the franchisee at no return. Such transactions do not give rise to revenue.

Sale of Goods

11. "Bill and hold" sales, in which delivery is delayed at the purchaser's request but the purchaser takes title and accepts billing

Revenue is recognised when the purchaser takes title, provided:

- (a) It is probable that delivery will be made;
- (b) The item is on hand, identified and for delivery to the purchaser at the time the sale is recognised;
- (c) The purchaser specifically acknowledges the deferred delivery instructions; and
- (d) The usual payment terms apply.

Revenue is not recognised when there is simply an intention to acquire or manufacture the goods in time for delivery.

12. *Goods shipped subject to conditions*

- (a) *Installation and inspection*

Revenue is normally recognised when the purchaser accepts delivery, and installation and inspection are complete. However, revenue is recognised immediately upon the purchaser's acceptance of delivery when:

- (i) The installation process is simple in nature; or
- (ii) The inspection is performed only for purposes of final determination of contract prices.

- (b) *On approval when the purchaser has negotiated a limited right of return*

If there is uncertainty about the possibility of return, revenue is recognised when the shipment has been formally accepted by the purchaser or the goods have been delivered and the time period for rejection has elapsed.

- (c) *Consignment sales under which the recipient (purchaser) undertakes to sell the goods on behalf of the shipper (seller)*

Revenue is recognised by the shipper when the goods are sold by the recipient to a third party.

(d) *Cash on delivery sales*

Revenue is recognised when delivery is made and cash is received by the seller or its agent.

13. *Lay away sales under which the goods are delivered only when the purchaser makes the final payment in a series of installments*

Revenue from such sales is recognised when the goods are delivered. However, when experience indicates that most such sales are consummated, revenue may be recognised when a significant deposit is received provided the goods are on hand, identified and ready for delivery to the purchaser.

14. *Orders when payment (or partial payment) is received in advance of delivery for goods not presently held in inventory, for example, the goods are still to be manufactured or will be delivered directly to the customer from a third party*

Revenue is recognised when the goods are delivered to the purchaser.

15. *Sale and repurchase agreements (other than swap transactions) under which the seller concurrently agrees to repurchase the same goods at a later date, or when the seller has a call option to repurchase, or the purchaser has a put option to require the repurchase, by the seller, of the goods*

The terms of the agreement need to be analysed to ascertain whether, in substance, the seller has transferred the risks and rewards of ownership to the purchaser and hence revenue is recognised. When the seller has retained the risks and rewards of ownership, even though legal title has been transferred, the transaction is a financing arrangement and does not give rise to revenue.

16. *Sales to intermediate parties, such as distributors, dealers or others for resale*

Revenue from such sales is generally recognised when the risks and rewards of ownership have passed. However, when the purchaser is acting,

in substance, as an agent, the sale is treated as a consignment sale.

17. *Subscriptions to publications and similar items*

When the items involved are of similar value in each time period, revenue is recognised on a straight-line basis over the period in which the items are dispatched. When the items vary in value from period to period, revenue is recognised on the basis of the sales value of the item dispatched in relation to the total estimated sales value of all items covered by the subscription.

18. *Installment sales, under which the consideration is receivable in installments*

Revenue attributable to the sales price, exclusive of interest, is recognised at the date of sale. The sale price is value of the consideration, determined by discounting the installments receivable at the imputed rate of interest. The interest element is recognised as revenue as it is earned, on a time proportion basis that takes into account the imputed rate of interest.

19. *Real estate sales*

Revenue is normally recognised when legal title passes to the purchaser. However, where the equitable interest in a property may vest in the purchaser before legal title passes and therefore the risks and rewards of ownership have transferred at that stage. In such cases, provided that the seller has no further substantial acts to complete under the contract, it may be appropriate to recognise revenue. In either case, if the seller is obliged to perform any significant acts after the transfer of the equitable and/or legal title, revenue is recognised as the acts are performed. An example is a building or other facility on which construction has not been completed.

In some cases, real estate may be sold a degree of continuing involvement by the seller such that the risks and rewards of ownership have not been

transferred. Examples are sale and repurchase agreements, which include put and call options, and agreements whereby the seller guarantees occupancy of the property for a specified period, or guarantees a return on the purchaser's investment for a specified period. In such cases, the nature and extent of the seller's continuing involvement determines how the transaction is accounted for. It may be accounted for as a sale, or as a financing, leasing or some other profit sharing arrangement. If it is accounted for as a sale, the continuing involvement of the seller may delay the recognition of revenue.

A seller must also consider the means of payment and evidence of the purchaser's to complete payment. For example, when the aggregate of the payments received, including the purchaser's initial down payment, or continuing payments by the purchaser, provide insufficient evidence of the purchaser's commitment to complete payment, revenue is recognised only to the extent cash is received.

Interest, Royalties and Dividends

20. License fees and royalties

Fees and royalties paid for the use of an entity's assets (such as trademarks, patents, software,) are normally recognised in accordance with the substance of the agreement. As a practical matter, this may be on a straight-line basis over the life of the agreement, for example, when a licensee has the right to use certain technology for a specified period of time.

An assignment of rights for a fixed fee or non refundable guarantee under a non cancelable contract which permits the licensee to

exploit those rights freely and the licensor has no remaining obligations to perform is, in substance, a sale.

In some cases, whether or a license fee or royalty will be received is contingent on the occurrence of a future event. In such cases, revenue is recognised only when it is probable that the fee or royalty will be received, which is normally when the event has occurred.

21. Effective yield on an Asset

When calculating the effective interest/yield rate, an entity should estimate cash flows considering all contractual terms of the financial asset. The calculation includes all fees paid or received that are an integral part of the effective interest rate, directly attributable transaction cost and all other premiums or discounts.

For example, Local Body XYZ purchases a 5-year bond carrying 4.7% interest (paid annually) with a face value of Rs.1,250, for Rs.1,000 (including transaction costs).

The effective yield rate method is applied as follow:

Effective Yield Computation	
Years	Cash inflows/(outflows)
Year 0	(1,000)
Year 1	59
Year 2	59
Year 3	59
Year 4	59
Year 5	59+1250
Effective Yield Rate	10%

Year	(a) Amortised Cost at the beginning of the year	(b = a 10%) Interest income	(c) Cash flows	(d = a + b - c) Amortised cost at the end of the year
Year 1	1,000	100	59	1,041
Year 2	1,041	104	59	1,086
Year 3	1,086	109	59	1,136

Year 4	1,136	113	59	1,190
Year 5	1,190	119	1,250 + 59	-

As per the effective yield method, the amount of interest to be recognised in Year 1 to Year 5 would be Rs.100, Rs.104, Rs.109, Rs.113 and Rs.119 respectively.

Appendix B

Note: This Appendix is not a part of the Accounting Standard for Local bodies. The purpose of this appendix is only to bring out the major differences between this Accounting Standard for Local Bodies (ASLB) and the corresponding International Public Sector Accounting Standard (IPSAS) 9, Revenue from Exchange Transactions.

COMPARISON WITH IPSAS 9, REVENUE FROM EXCHANGE TRANSACTIONS

1. Definition of the term 'Exchange Transactions'

International Public Sector Accounting Standard (IPSAS) 9 'Revenue from Exchange Transactions' issued by International Public Sector Accounting Standards Board (IPSASB) defines a transaction as an exchange transaction, in which one entity receives assets or services, or has liabilities extinguished and directly gives approximately equal value to other party in exchange. For determining whether there is exchange of approximately equal value requires determining the fair value of the consideration given and received.

The exposure draft of proposed ASLB does not require to determine the fair value of the consideration exchanged, rather it requires that there must be exchange of some value in a transaction which may not be equal to the fair value of the consideration exchanged to be termed as an exchange transaction.

The exposure draft of the proposed ASLB has changed the definition of 'Exchange Transaction' because in India most of the transactions undertaken by Local Bodies

providing goods and services at subsidised prices does not involve the exchange of equal value and would not be covered under exchange transactions. However, it is felt that although there is no exchange of equal value but the nature of the transaction is that of exchange transaction. Accordingly, it should be classified as exchange transaction. Further, it is also felt that the Local Bodies in India are at a very early stage of adoption of accrual basis of accounting and it would be difficult for the Local Bodies to determine the fair value for deciding whether there is exchange of approximately equal value for a transaction. Consequent to the above, other changes have also been incorporated in the proposed Standard.

2. Materiality of the effect of time value of money

The exposure draft of proposed ASLB 'Revenue from Exchange Transactions' requires to measure revenue at fair value of the consideration received or receivable as provided in International Public Sector Accounting Standard (IPSAS) 9 'Revenue from Exchange Transactions' issued by the International Public Sector Accounting Standards Board (IPSASB). In most cases, the consideration is in the form of cash or cash equivalents and the amount of revenue is the amount of cash or cash equivalents received or receivable. However, in case of the financing transactions, where the inflow or outflow of cash or cash equivalents is deferred, IPSAS 9 requires to measure the fair value of the consideration by discounting all future receipts using an imputed rate of interest. However, exposure draft of proposed ASLB requires discounting of cash receipts only when the time value of money is material. It also provides that ordinarily, when the inflow of cash or cash equivalents is deferred beyond a period of twelve months, the effect of time value of money is material. □

ICAI VISION – 2021

(AN INVITATION FOR PARTICIPATING IN THE EXERCISE OF CREATING A SHARED VISION)

A comprehensive Vision Document titled 'ICAI Vision for the 21st Century' was released in 2002; comprising detailed vision and restructuring business plan for the Institute and the profession keeping 2010 as target year. Since then, the world economy in general, and India in particular, is evolving at a galvanised pace. Further, the role of the Government is also changing from that of a regulator to that of a facilitator, and all regulatory regimes are evolving to become more transparent and convergent with the global standards. The dynamics of the economic environment, technology upgradation and changing profile of the members of the Institute, *inter alia*, has led to the need for reviewing the document.

Accordingly, a Special Purpose Committee has been constituted for bringing out Vision Document 2021. This exercise of revisiting the document 'ICAI Vision for the 21st Century' will be a process of reinvention in the light of changing expectations of stakeholders, challenges of competitive environment and emerging models of civil society. The year 2021 has been selected in tune with the time frame of the transit of Indian economy from developing to developed economy. This exercise is expected to yield vision for leapfrog of Indian CA profession as world leader of the profession as total business solution provider with global insights and strategies.

This exercise is highly participative and consultative in nature. In order to elicit views and intellectual inputs from the wide range of professional excellence, we have developed two sets of questionnaires separately for 'Members in Practice' and 'Members in Service' considering the specific perspectives of respective areas. We shall be extremely grateful if you could kindly spare your valuable time and fill the questionnaire to be the part of ICAI Vision-2021.

The option of *ONLINE SUBMISSION* of these questionnaires for *MEMBERS* is also available on Institute's website [www.icaai.org](http://www.icaai.org/icairoot/announcements/announ1092.html) at the link <http://www.icaai.org/icairoot/announcements/announ1092.html>.

All responses will be kept in strict confidence since these questionnaires are only to help classification and interpretation of the data. Please give your frank and constructive views. At your convenience, please also send us specimen copies or references to any relevant articles, reports or other publications, which can enrich our vision.

Please mark "**Vision Questionnaires**" on the top of the envelop containing responses and mail the same to: -- Vision and Restructuring Secretariat, The Institute of Chartered Accountants of India, ICAI Bhawan, IIIrd Floor Annexe Building, P.B. No. 7100, Indraprastha Marg, New Delhi 110002.

You are what you think about all day long.

INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

VISION & RESTRUCTURING - 2021

Questionnaire for Members in PRACTICE

PERSONAL DETAILS

1. Age (nearest birthday) :	<input type="checkbox"/> Below 30 <input type="checkbox"/> 41 to 50 <input type="checkbox"/> 61 & above	<input type="checkbox"/> 31 to 40 <input type="checkbox"/> 51 to 60
2. Qualifications (Tick all applicable ones) :	<input type="checkbox"/> Bachelors <input type="checkbox"/> Doctorate <input type="checkbox"/> ICAI <input type="checkbox"/> ICWA/CIMA <input type="checkbox"/> Others	<input type="checkbox"/> Masters <input type="checkbox"/> MBA/PGDM <input type="checkbox"/> CA (England Wales) <input type="checkbox"/> ICSI
3. Category (Tick One) :	<input type="checkbox"/> Student ; <input type="checkbox"/> Practice; <input type="checkbox"/> Service	
4. Organisation :	<input type="checkbox"/> Individual <input type="checkbox"/> Indian Business <input type="checkbox"/> MNC <input type="checkbox"/> Government	<input type="checkbox"/> Firm <input type="checkbox"/> PSU <input type="checkbox"/> Regulatory <input type="checkbox"/> Other
5. Size of Organisation (Tick one) :	If a Firm, number of Partners <input type="checkbox"/> 5 or less <input type="checkbox"/> 6 to 10 <input type="checkbox"/> 11 to 15 <input type="checkbox"/> 16 to 20 If a company or other entity, total number of employees. <input type="checkbox"/> 100 or less <input type="checkbox"/> 101 to 1,000 <input type="checkbox"/> above 1,000	

1. **Environmental Opportunities** – Considering the irreversible trend of reforms and economic growth rates achieved in the past few years, opportunities for accounting practice in the next decade or so will arise from both within and outside India. Consider the growth prospects keeping in view the relevant technological, social and political dimensions.

1.1 Segments – Rate on a 10 point scale, where 1 = Poor and 10 = Excellent, the following opportunities in terms of customer segments.

	Opportunities	Rating
a.	Service needs of Indian companies in India	

b.	Indian companies' cross border service needs abroad	
c.	Needs of existing and new MNCs in India	
d.	Public enterprises – restructuring, disinvestment	
e.	Institutions – FIs, FII, MFs, WB, IMF, ADB, etc.	
f.	Regulatory authorities both domestic–(SEBI, TRAI, CERC, IRDA, etc.) or international (SEC, PCAOB, etc.)	
g.	Government – Central, State, local	
h.	Non-Governmental organisations	
i.	Clients abroad, on location, through opening foreign branches/and subsidiaries	

Whenever you do a thing, act as if all the world were watching.

j	Any other segments > Please specify and rate. _____ _____ _____	
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1.2 Products - Rate on the same 10 point scale the following product range, existing and new.

	Opportunity	Rating
a.	Financial Statements Audit	
b.	Information Systems Audit	
c.	Internal Audit	
d.	Controls Assurance	
e.	Tax Compliance & Audit Services	
f.	Tax and Legal Advisory Services	
g.	Financial and Business Advisory Services	
h.	Technology Advisory (including ERP implementation)	
i.	Government Accounting Advisory Services	
j.	Other new products? Please specify and rate _____ _____ _____	

2. **Competitive Threats** – The higher growth and opening up will also intensify and bring in more threats. Consider the following list. Add more, if necessary. Rate them on the following 10 point scale. 1 = No threat. 10 = Overwhelming threat.

	Threat	Rating
a.	Too many CAs in practice, chasing the same old, few traditional products, undercutting of fees in traditional products	
b.	MNC Accounting firms, big and medium.	
c.	MNC management consulting firms	
d.	Accountancy and Finance professionals from other professional bodies in India	

e.	MBA Finance graduates with a broader management perspective from business schools	
f.	Proprietary products of competition	
g.	High global brand equity and client base	
h.	Use of contemporary technology	
i.	Global training and exposure to foreign and Indian staff.	
j.	Economies of scale and scope	
k.	Any others. Please list and rate. _____ _____	

3. **Regulatory challenges** – Domestic regulations may become less in volume, but more demanding. To this will be added global regulations. Consider the list below. Add, if necessary. Rate the likely severity of the following demands on accountancy practice, on a 10 point scale, 1 = Very easy to comply with, and 10 = Extremely difficult to comply with.

	Type of Regulation	Level of Challenge
a.	Alignment of Indian Accounting Standards to IFRS	
b.	Financial performance reporting (SEBI, NSE, RBI, etc.)	
c.	USGAAP	
d.	IFRS and other GAAP	
e.	Capital market requirements of their home countries of MNCs operating majority – owned subsidiaries in India	
f.	Capital market requirements of host countries where Indian companies go to operate and/or raise funds.	
g.	Accounting for subsidiaries and associated undertakings.	
h.	Segmental reporting	
i.	Reporting the substance of transactions. Financial Instruments accounting	
j.	Auditing standards. Quality Control. Peer review.	
k.	Extent of reliance on internal audit.	

One who smiles rather than angers is always stronger.

l.	Ethical standards, with more stringent demand for objectivity and independence.	
m.	Avoiding conflict of interest between clients.	
n.	Reliance on work of professionals, other than CAs.	
o.	Professional indemnity insurance.	
p.	Any others ? Please specify. Rate _____ _____ _____	

4. **Core Competencies** - Please think of the range of core competencies ideally required in the Indian CA in order to respond to the above three forces – exploit the opportunities, cope with the threats and comply with the regulatory requirements. While each member cannot possess all of them, what would be desirable is that the firm in practice has a pool of talent covering all, most or many of the competencies. Rate how well equipped are Indian firms on the various competencies, on a ten point scale, 1 = almost not equipped, and 10 = perfectly equipped.

	Competence	Rating
a.	Assurance services (including due diligence, overseas issues, private placements and listings) using risk and system based methodology and computed assisted techniques.	
b.	Investigations (including computer related frauds).	
c.	Tax compliance, advice and planning (including direct and indirect and international taxes).	
d.	Stock market investment counseling and equity research.	
e.	Financial Management and Analysis.	
f.	Corporate Finance (including financial restructuring, M & A, demergers, disposals, treasury and international finance).	

g.	Business Advisory Services (including inward investments, cross border investments and operations, foreign collaboration, JVs and Mutual Funds).	
h.	Insolvency	
i.	Information Technology (MIS, BPR, ERP).	
j.	Organisation (including demand, supply, cost benefit, viability).	
k.	Privatisation - Public Private partnerships	
l.	Aid Funded Projects	
m.	Any others ? Please specify and rate _____ _____ _____	

5. **Professional Development** – It follows from the above that firms and members in practice should take a variety of steps for continuing professional development. Rate the following developmental inputs on a 10 point scale, 1 = relatively least vital, 10 = relatively most vital.

	Input	Rating
a.	Allocation of time and effort for quality training in Consultancy skills Management skills Behavioural skills Informational Technology skills Others (please specify) _____	
b.	Investment in research and development of knowledge and intellectual capital	
c.	Investment in Technology – hardware and software	
d.	Development of personnel policies for attracting best young talent with contemporary education and flair for information systems and technology	
e.	Lateral induction of senior experts in relevant areas such as financial services, including insurance, infrastructure and management.	
f.	Changing the mindsets of partners and professionals to accept such new entry level and senior talent and synergise with them for customer value addition and service.	

All life is an experiment.

g.	Reduce excessive fragmentation in the practice industry by networking, alliances, mergers and consolidation with other medium and small firms, to develop critical mass and economies of scale and scope.	
h.	Enhance global exposure for partners and members through secondment, travel, training, reading and collaborations.	

6. **Indian CA Profession Vision** – Assuming that professionals in practice and service will develop themselves on the above lines, and the Institute will also restructure itself; and also given the immense opportunities in India, Asia and the world, what Vision would you envisage and advocate for the profession by 2021 AD? Here are some illustrative elements of such a Vision. Please add to the list any other elements you feel relevant.

6.1 Institute Vision - The ICAI will be recognised globally as one of the leading (top 3? 5? 10? Tick one) institutes of accountants. The qualifications and continuing education of its members will be a respected passport to professional work anywhere in the world. It will be a valued partner of sister professional bodies, chambers, academic institutions, government and agencies for achieving a grand India Vision in the 21st century.

6.2 Practice Member Vision – The membership in practice will be held in high esteem by the stakeholders for their high standards of competence and ethics, and their contribution to better regulation and governance. Their customers will be delighted with their world class services in a wide range of relevant products and services.

6.3 Service Member Vision – The membership in service will be valued by their corporations as world class talent to be accountants, specialists, Chief Financial

Officers and Chief Executive Officers of divisions, companies and groups, in due course, in their careers, contributing to high growth, profitability and good corporate governance. Those working on regulatory, government and non-profit organisations will be valued for their financial expertise, administrative leadership and social contributions.

Please list any other elements to be considered for addition.

6.1.1. Institute Vision

6.2.1 Practice Member Vision

6.3.1 Service Member Vision

7. **Strategies** – While the above visions are attractive, you will agree that they are not guaranteed, but will require two sets of mutually reinforcing strategic actions – by the members; and by the Institute.

7.1 Practice Member Strategies – Please consider the following strategies. Add to the list, if you feel the need. Rank order the items, from 1 = the relatively most crucial strategy, 2 = the second most crucial, etc.

Never let your memories be greater than your dreams.

	Strategy	Rank
a.	Product Strategy – Develop and offer a widening range of services to clients.	
b.	Service Strategy – Proactively add value to clients through suggestions on how they can enhance their business performance, thereby earning not just customer satisfaction, but also, delight and further ahead, surprise.	
c.	Operations Strategy – Raise productivity through technology, systems, processes, infrastructure and skills	
d.	Quality Strategy - Carry out all work at high levels of professionalism and excellence. Never compromise on quality, independence, objectivity and integrity.	
e.	Human Resource Strategy - Recruit, retain, develop, motivate and utilise the best young talent and experienced specialists.	
f.	Growth Strategy – Expand in numbers and locations in India; and abroad, if necessary, through alliances and mergers	
g.	Pricing Strategy - While upgrading the range and quality of services, also raise fees to respectable and remunerative levels.	
h.	Risk Management Strategy – Push for incorporation and other innovative steps to avoid/reduce the hazard of unlimited liability of partners, which will rise enormously with growth, regulation, client demands and possible claims.	
i.	Own Vision – Develop a Vision for one’s own firm, based on environmental scan, opportunities, competition and competencies, pursue, review and periodically update the Vision.	
j.	Strategic Management – Formulate a long range, strategic plan to actualise the vision, through the above strategies; implement; monitor; and roll forward the plan.	
k.	External Relations Strategy – Maintain proactive relations with sister bodies, local chambers, government, regulatory and other relevant agencies, to enhance the image of the firm and the profession.	

i.	Research Strategy – Continue research and development on all the above aspects, develop proprietary products and processes. Where possible, share the concepts, experiences and lessons through the Institute journal, conferences and other foray.	
m.	Any others? Please specify and rank, along with the above items. _____ _____ _____	

7.2 Institute Strategies – Consider the following list. Add your suggestions, if any. Rank order the following, from 1 = the relatively most crucial strategy, 2 = the second most crucial, etc.

	Strategy	Rank
a.	Raising the image, credibility and standing of the profession in the eyes of the public.	
b.	Strengthening the standards and aligning them with global market and regulatory demands.	
c.	Guiding member compliance and discipline with all regulatory and professional standards and guidelines	
d.	Developing a global perspective in the profession.	
e.	Marketing the value of its professional membership, and attracting the best young talent.	
f.	Supporting members in a variety of legitimate ways, such as opening up new areas of work, better fee structures, continuous advanced professional training, etc. Enhancing the image of members and canalising avenues for providing services, assisting in development of networking of firms and benchmarking of professional development services.	
g.	Research and development on all emerging issues, and quick dissemination.	
h.	Solution to the problem of unlimited financial liability of members. Disseminating information on application of LLP laws.	

What ever the mind of man can conceive and believe, it can achieve.

i.	Boundary management with government, regulatory and other bodies on behalf of the profession, for constructive influence and impact.	
j.	Any others? Please specify and rank, along with the above items. _____ _____ _____	

8. Institute Restructuring - In relation to the above vision and strategies, please list the areas and ways in which the Institute itself needs to gear up and restructure itself. Reply in bullet points.

a. Central Council

b. Central Council Members

c. Committees

d. Chairperson/Member of Committees

e. Secretariat

f. Regional Councils or State Boards of Accountancy

g. Regional Offices

h. Educational Events

i. Research

j. Publications

k. Any others. Please specify

9. **Blank Sheet** – Please use the extra pages for sharing any other constructive critique and suggestions on the Vision 2021 and Restructuring of the CA profession. Write in bullet points. Neat and legible. Thank you for your time, effort and valuable input.

Even if you are on the right track, you'll get run over if you just sit there!

INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

VISION & RESTRUCTURING - 2021

Questionnaire for Members in SERVICE

PERSONAL DETAILS

1. Age (nearest birthday) :	<input type="checkbox"/> Below 30 <input type="checkbox"/> 41 to 50 <input type="checkbox"/> 61 & above	<input type="checkbox"/> 31 to 40 <input type="checkbox"/> 51 to 60
2. Qualifications (Tick all applicable ones) :	<input type="checkbox"/> Bachelors <input type="checkbox"/> Doctorate <input type="checkbox"/> ICAI <input type="checkbox"/> ICWA/CIMA <input type="checkbox"/> Others	<input type="checkbox"/> Masters <input type="checkbox"/> MBA/PGDM <input type="checkbox"/> CA (England Wales) <input type="checkbox"/> ICSI
3. Category (Tick One) :	<input type="checkbox"/> Student ; <input type="checkbox"/> Practice; <input type="checkbox"/> Service	
4. Organisation :	<input type="checkbox"/> Individual <input type="checkbox"/> Indian Business <input type="checkbox"/> MNC <input type="checkbox"/> Government	<input type="checkbox"/> Firm <input type="checkbox"/> PSU <input type="checkbox"/> Regulatory <input type="checkbox"/> Other
5. Size of Organisation (Tick one) :	If a Firm, number of Partners <input type="checkbox"/> 5 or less <input type="checkbox"/> 6 to 10 <input type="checkbox"/> 11 to 15 <input type="checkbox"/> 16 to 20 If a company or other entity, total number of employees. <input type="checkbox"/> 100 or less <input type="checkbox"/> 101 to 1,000 <input type="checkbox"/> above 1,000	

1. **Environmental Opportunities**-There is an abundance of opportunities for CA's in service, not only in the corporate sector, but also increasingly in the Government, regulatory and other agencies, which is based on the irreversible trend of economic growth rates achieved in the past few years. Consider the following possible opportunities. Add to the list, if you wish. Then, rate each of them on a 10 point scale where 1= Poor and 10 = Excellent.

	Opportunity	Rating
a.	Higher growth rate of industry (10% plus?), as the locomotive of the Indian economy and the consequent higher investments and turnovers. India being contemplated as one of developed nations by 2050.	
b.	Even higher growth sectors such as software, infrastructure, financial services, tourism, etc.	
c.	Devoid of the twin protection of licensing and import duties, the likely greater awareness of entrepreneurs and top managements of the need for better financial management, control and cost competitiveness through BPR, ERP, etc.	

Winners never quit and quitters never win.

d	With freer access to domestic and foreign money and capital markets, the greater importance attached by top executives to treasury management.	
e	The imperatives of export growth and the growth of Indian MNC's; and the consequent opportunities in foreign exchange management.	
f	The greater freedom for M & A and the reliance on accountants as key players in scouting, bidding, acceptance, rejection and consummation.	
g	The expansion of existing MNCs in India and entry of new ones, both for exploiting the Indian domestic demand and for using India as a sourcing powerhouse; and their need for Indian accountants, for their Indian and foreign operations.	
h	The massive investments required, of about 400 billion US dollars in the physical infrastructure – power, telecom, roads, ports, airports, railways, etc. – and the need for accountants from the concept to commissioning and on-going operations.	
i	The trend towards better corporate governance, self-regulation, domestic and international regulation, and the resultant need for better internal accounting, audit, appraisal and reporting to all stakeholders.	
j	Any others. Please specify. _____ _____	

2. **Competitive Threats** - Opportunities, alas, also attract competition. The more attractive and the more global they are, they attract both domestic and foreign professional competition for the Indian CA in service. Consider the following threats. Add, if any. Rate each on a 10 point scale, 1 = No threat, and 10 = Overwhelming threat.

	Opportunity	Rating
a.	Greater reliance by top managements on other qualified Indian professionals, such as MBAs with Finance specialisation, with a business strategic perspective, for Corporate Finance jobs, keeping the CA for the basic book-keeping and accounting.	

b.	Similar dependence on Cost Accountants, especially those with additional Engineering, Science and even MBA background, for the Management Accounting and Control function.	
c.	Calling on Financial Analysts, again with additional Commerce and MBA backgrounds, for handling the M & A and Treasury tasks.	
d.	Looking to MBAs, with International Business, International Finance, Foreign Trade or Exports specialization, such as from the IIFT and similar institutions, to handle the export finance aspects.	
e.	Seeking out people with industry-specific qualifications, such as CAIIB for Banking, FIA for Insurance, Tourism/ Hotel Management, etc. including Finance course, tailor-made for those industries.	
f.	Preference for IT specialists, with Finance orientation to drive MIS, BPR, ERP and Cost competitiveness.	
g.	Specialists in infrastructure financing, pricing and control, with experience in mega projects, being brought in from Asia Pacific US or Europe.	
h.	With a much freer economy, the possible temptation for MNCs to bring expatriate Finance executives at senior levels; and outsource jobs to their global accounting firms, who are also now present in India.	
i.	More use of professionals with legal and Company Secretarial background for corporate governance and compliance issues.	
j.	Any others. Please specify. Rate _____ _____ _____	

3. **Regulatory Challenges** - Liberalisation does increase business freedom, but also brings regulation to ensure fair play and competition. Globalisation adds newer types of regulation. What are the main such concerns before industry, in which the Indian CA can make a material contribution? Consider the following list. Add, if needed.

Vision without action is daydreaming and action without vision is a nightmare.

Rate the likely severity on a 10 point scale, 1 = Very easy to comply with, and 10 = Extremely difficult to comply with.

	Type of Regulation	Level of Challenge
a.	Compliance with the evolving Indian accounting standards.	
b.	Changing requirements of performance reporting (e.g. Quarterly Reports).	
c.	SEBI Takeover code and its demands as acquirer, acquiree, intermediary, etc.	
d.	Direct and indirect tax regulation, record keeping and reporting needs.	
e.	Group accounting, including subsidiaries and associates, domestic and overseas.	
f.	In the event of foreign operations and issues, relevant foreign standards including the USGAAP, IFRS and other host country standards.	
g.	Indian capital market requirements.	
h.	Corporate Governance related, audit, compensation and other board committee, system and process needs.	
i.	Any others. Please list and rate. _____ _____	

4. **Core Competencies** – Please think of the range of core competencies demanded of an Indian C.A. in this fast changing environment of opportunities, threats and regulatory pressures. While each CA in service cannot, and need not, possess all of them, there should be some basic understanding of each competence and more in-depth knowledge of some. Rate the current level of preparedness of the typical Indian CA on the various competences, on a ten point scale, 1 = Almost not equipped, 10 = Almost perfectly equipped.

	Competence	Rating
a.	Contemporary, updated knowledge of all accounting concepts, models, techniques and innovative applications.	
b.	Keeping uptodate with the emerging Indian and relevant foreign and international accounting standards.	
c.	Appreciation of the total business management model, inter-disciplinary and inter-functional, where finance is one of the functions, and its interface with the other functions, such as Marketing, Production, Materials, Human Resources, R & D and IT.	
d.	Understanding of the total Corporate Finance function, going beyond accounting and auditing, including Cost and Management Accounting for performance assessment and improvement; planning and control; and decision making, such as investment and pricing.	
e.	Financial Analysis skills, to handle the internal corporate role for shareholder wealth maximisation, public issues, M & A, etc.	
f.	Orientation to the fast moving field of Information Technology to help the line management with MIS, ERP, EDI, E-Commerce and E-Business.	
g.	Some familiarity with International Finance, including currencies, exchange rate dynamics, national and regional regulations in territories of importance to the company.	
h.	The willingness and ability to accept line management postings in the career path, to be able to move into positions, of Profit Centre Head, COO and CEO.	
i.	Up-to-date with the current debate and practice on good corporate governance, with board committees, transparent reporting, business ethics and social responsibility.	
j.	Any others ? Please specify. Rate _____ _____ _____	

Three things that never come back: the spent arrow; the spoken word; the lost opportunity.

5. **Professional Development** – The implications of the preceding four sets of factors are clear that members in service should take many steps for their own continuing professional development. Consider the following steps. Add any, if you wish. Rate all of them on a 10 point scale, 1 = relatively least vital, and 10 = relatively most vital.

	Input	Rating
a.	Continuous reading and in-company and external training and learning in the core areas of accountancy and audit.	
b.	Similar training in India and abroad on US GAAP, IFRS and other accounting standards.	
c.	Management training courses in the different management functions and in General Management, with or without the acquisition of formal qualifications such as MBA, Diploma, etc. which result in acquisition and development of specialist skill sets.	
d.	Qualifications of one or more approved professional bodies, which would enhance the skills and knowledge relevant to the job.	
e.	Reading and training in Financial Analysis, including money and capital markets, intermediaries, instruments, equity research, M & A, etc.	
f.	Training in relevant aspects of merchant and investment banking including valuation, disinvestment, financial, asset and corporate restructuring, privatisation, etc.	
g.	Communication, team building and other business leadership skills to serve the internal and external customers of the enterprise.	
h.	Any others ? Please list. Rate. _____ _____ _____ _____	

6. **Indian CA Profession Vision** - Assuming that professionals in practice and service will develop themselves on the above and similar lines, and the Institute will also restructure itself; and also given the immense opportunities in India, Asia and the world, what Vision would you envisage and advocate for the profession by 2021 AD? Here are some illustrative elements of such a Vision. Please add to the list any other elements you feel relevant.

6.1 Institute Vision – The ICAI will be recognized globally as one of the leading institutes of accountants. The qualifications and continuing education of its members will be a respected passport to professional work anywhere in the world. It will be a valued partner of sister professional bodies, chambers, academic institutions, government and agencies for achieving a grand India Vision in the 21st century.

6.2 Service Member Vision – The membership in service will be valued by their corporations as world class talent to be accountants, specialists, chief financial officers and chief executive officers of divisions, companies and groups, in due course, in their careers, contributing to high growth, profitability and good corporate governance. Those working in regulatory, government and non-profit organisations will be valued for their financial expertise, administrative leadership and social contributions.

6.3 Practice Member Vision – The membership in practice will be held in high esteem by the stakeholders for their high standards of competence and ethics, and their contribution to better regulation and governance. Their customers will be delighted with their world class services in a wide range of relevant products and services.

Don't think "problem", think "opportunity".

6.1.1 Institute Vision

6.2.1 Service Member Vision

6.3.1 Practice Member Vision

7. **Strategies** – You will appreciate that while it is useful to articulate a Vision, it is even more important, and also, perhaps, more difficult to actualise it. Its achievement requires two sets of mutually reinforcing strategic actions – by the members; and by the institute.

7.1 Service Member Strategies - Please consider the following strategies. Add, if necessary. Rank order the items, from 1 = the relatively most crucial strategy, 2 = the second most crucial, etc.

	Strategy	Rank
a.	Life Strategy – Introspect, scan the opportunities, assess one self create core competencies specialisation and decide, in principle, whether to be in a salaried job career all of one’s life; or whether to gain experience and jump off, at an opportune point, as an entrepreneur.	
b.	Career Strategy – If the choice is to have a life career, consider the opportunities and aptitudes and decide whether it is to be in Finance through out or whether to branch off, at the appropriate stage, into a Line management career.	

c.	Specialisation Strategy - Considering the opportunities and critical self-assessment, consider if specialisation in areas essential to enhance acquired core competencies...” is the most optimal strategy for oneself. If so, pursue a strategy of intense specialisation, and emerge as a specialist, comparable in stages, with the best in your industry; in India; and globally.	
d.	Finance Career Strategy - If the career is to be broadly in Finance, and not in line, decide whether it is to be in Corporate Finance, within a Business Group/ Company; or, at a suitable stage, to move into Financial Services/Consultancy. If so, seek the relevant kind of internal and external training and development.	
e.	Corporate Finance Career Strategy - Seek rotation into all significant components, such as Accounts, Audit, Taxation, Costing, Factory, Sales Region, Foreign posting, if any, IT, Planning Materials, and even one or two line assignments, so as to develop total understanding of the entire spectrum of Finance, as well as empathy with line management.	
f.	Financial Consultancy Strategy - Having absorbed Corporate Finance experience for some years, start reading and training in those financial consultancy products, in which you have aptitude and interest. Decide whether to join a C.A. firm in practice or a financial consulting specialist firm or even a management consulting firm, with a financial consulting division. Prepare yourself in-depth to compete with the best Indian and foreign consultants in those products.	
g.	Line Career Strategy – Seek early assignments that will enhance your understanding of the business processes. say Budgeting, Costing, Project Accounting and the Field. Acquire the MBA model related management knowledge of all functions, through reading, training and, if possible, even formal part-time or full time qualification. Take line postings, even if at a level below your current Finance job, in any function, where you have aptitude, and earn your way up to Profit Centre Head, COO and CEO.	

If think you can't, you're right. If think you can, you're right.

h.	Other Strategies - Depending on your aptitude and opportunities, if you consider careers in government, regulatory bodies and NGOs suitable, re-orient self-development on those lines.	
i.	Any others? Please specify and rank, along with the above items. _____ _____ _____	

7.2 Institute Strategies – Consider the following list. Add your suggestions, if any. Rank order the following, from 1 = the relatively most crucial strategy, 2 = the second most crucial, etc.

	Strategy	Rank
a.	Raising the image, credibility and standing of the profession in the eyes of the public.	
b.	Strengthening the standards and aligning them with global market and regulatory demands. Globalisation of Accounting standards.	
c.	Ensuring member compliance and discipline with all regulatory and professional standards and guidelines. Providing guidance on professional standards.	
d.	Developing a global perspective for its members, whether in service or practice.	
e.	Marketing the value of its professional membership, and attracting the best young talent.	
f.	Creating meaningful advanced professional training to enhance individual members profile and supporting members in a variety of legitimate ways, such as opening up new areas of work, better fee structures, continuous advanced professional training, etc.	
g.	Research and development of unlimited financial liability of members in practice.	
h.	Effective interactions with Government and Regulators to enhance the contribution of the members in all aspects of financial reporting and other aspects of administration.	

i.	Creating a benchmarking for rating of firms. Any others? Please specify and rank, along with the above items. _____ _____ _____	
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8. **Institute Restructuring** - In relation to the above vision and strategies, please list the areas and ways in which the Institute itself needs to gear up and restructure itself. Reply in bullet points.

- a. Central Council

- b. Central Council Members

- c. Committees

- d. Chairperson/Member of Committees

- e. Secretariat

- f. Regional Councils or State Boards of Accountancy

Trust in yourself. Your perceptions are often far more accurate than you are willing to believe.

g. Regional Offices

h. Educational Events

i. Research

j. Publications

k. Any others. Please specify

9. **Blank Sheet** – Please use the extra pages for sharing any other constructive critique and suggestions on the Vision 2021 and Restructuring of the CA profession. Write in bullet points. Neat and legible. Thank you for your time, effort and valuable input.

ICAI Encourages Members abroad to form Chapters abroad and Liaison Point

Formation of a Chapter of member abroad in the city/country reside would not only add to the knowledge and skill up-gradation but they will also bring the Indian accountancy profession visible to the outside World and creating a bonhomie. The Institute is taking initiatives in promoting the Indian Chartered Accountants as a “brand” to promote various range of value added services, which can be provided by members abroad and for addressing the issues and concerns/interest of them. The Chapter aboard and member abroad as integral part of the Chapter would play a vital role in promoting the Indian chartered accountancy as preferred brand worldwide.

The opening of Chapter inter alia requires 20 members in a city, if Chapter is to be formed in a city of foreign country and 100 members, if Chapter is to be formed at country level. Your active participation and role would go in the larger interest of making further forays in furthering the interest of the profession worldwide. Given the globalisation of business and opportunities coming in way of services trade; the Institute would request its members to form Chapters in the area/country they reside; the Guidelines of which are available at <http://www.icai.org/icairoot/overview/network/guidelines.jsp>.

Another organ which has been contemplated for promoting the activities of the Institute in foreign territories is the liaison point wherein any member of the Institute can forward the proposal for carrying forward the work programme of the Institute in the respective country/city in a foreign territory as per the structured format available at http://www.icai.org/icairoot/departments/international_affairs/icai_liaison_info.pdf

For further details, please write to ia@icai.org.

Real knowledge is to know the extent of one's ignorance.

3 Days National Seminar on IFRS	
Organised by Committee for Members in Industry of ICAI	
Objective	The Program is intended to give an overview of Application of IFRS in Indian Scenario. The program focuses more on concepts that are relatively new under Indian GAAP and on topics which by and large potentially impact the net worth and profit or loss under more common situations. Additionally it is intended to give overview on select other topics across the spectrum. Considering the fact that lot of challenges are faced during the first time implementation, a session is dedicated on sharing implementation experience by various consultants and users both large and SME.
Date & Time	June 5 – 7, 2008 (10.00 hours to 18.00 hours daily)
Venue	J W Marriot, Juhu, Mumbai
CPE Credit	18 hrs
Resource Persons	Nationally renowned experts having in-depth knowledge, experience and expertise about the IFRS will be addressing the programme
Topics to be discussed	Overview of IFRS - Model IFRS Financial Statements
	Financial Instruments
	Business Combinations
	First Time Adoption of IFRS
	Employee Benefits including ESOPs
	Fixed Assets/Asset Retirement Obligation/Embedded Leases/Borrowing Costs
	Consolidation/Joint Venture and Equity Affiliates
	Revenue Recognition
	Deferred Tax
	Foreign Currency Transactions and Translation
	Provisions, Impairment, EPS, Segmental information, Related Parties, Changes in Accounting Policies and estimates, Events after balance sheet date, Intangible assets, Borrowing costs, Discontinued operations, Interim financial statements, Service Concession agreements, others
Fees	Rs. 7,500/- for members; Rs. 10,000/- for non-members
	Cheque (local)/draft in favour of "Secretary ICAI" payable at Mumbai.
Contact Details	
Programme Chairman	CA. Sanjeev Maheshwari, Chairman CMII
	Tel.: +9198211 19043, ✉ casanjeevmaheshwari@gmail.com
Programme Director	CA.B M Agarwal, Chairman WIRC
	Tel.: +9198201 88573 ✉ brij@bnmca.com
Programme Coordinators	Dr. Surinder Pal, Sr. Deputy Director, ICAI, New Delhi
	Tel.: 011 – 30110442 ✉ spal@icai.org
	Mrs. S Kapoor, Sr. Faculty,
	Tel.: 022 - 3980 2911 ✉ kapoor@icai.org
Hosted By:	Western India Regional Council

3 Day Residential SOX Workshop		
Organised by Committee on Information Technology, ICAI		Hosted by Kottayam Branch of SIRC of ICAI
Theme	This workshop aims to provide an exposure to the requirements and enable the delegates to understand and appreciate the implications of SOX on their industry, their companies, their careers and jobs, apart from providing an opportunity for experience sharing to overcome the challenges ahead.	
Date & Time	July 17-19, 2008. Vehicle from Ernakulam to Thekkady will start sharp at 9.00 a.m. International Stadium, Kaloor, Ernakulam	
Venue	Tree Top Resort, Thekkady, Kerala	
Discussion Sessions	History and Events leading up to the Act, what does Sox mean to business? – Focus on internal controls. The role of the SEC and PCAOB. Corporate Governance across the globe. Where are we today on SOX? Practical issues in implementing Sox. How does SOX cover IT aspects?	
	CEO/CFO Disclosure, Certification, Internal Controls, Assertions, Risk. Critical analysis of important sections of Sarbanes Oxley Act – sections 302, 404, 409, 806 and 301.	
	SOX and other legislations; Frameworks and Methodologies, SOX for Foreign Issuers, SAS 70, SOX Compliance Roadmap; Entity – and Process – level controls, Application & IT General Controls, Designing, Documenting Controls	
	Primary and Secondary Controls, Preventive and Detective Controls, Understanding Project Management and SOX Implementation	
CPE Hours	12	
Fees	A. Residential (Twin Sharing Basis)	Fees
	ICAI Members	Rs.8,000/-
	Non-Members	Rs.10,000/-
	Accompanying Spouse/Child above 15 years	Rs.6,000/-
	Child below 15 years	Rs.3,000/-
	B. Non- Residential	
	ICAI Members	Rs.3,500/-
	Non-Members	Rs.4,500/-
The cheque should be drawn in the favour of “The Secretary, ICAI” payable at Kottayam and be sent to “The Chairman, Kottayam Branch of SIRC of ICAI, Makil Centre, Good Shepherd Road, Kottayam – 686001. Phone No.: 0481-2560057 & 2300307 E-Mail: kottayam@icai.org		
Contact Persons	<p>Workshop Director: CA. Atul Bheda FCA, Chairman, Committee on Information Technology, ICAI. E-mail: bhedaac@mtnl.net.in</p> <p>Chief Coordinator: CA. V.C. James, FCA, Council Member, Mobile: 9847034528, E-mail: vcjames_2005@yahoo.com, vcjames@airtelmail.in</p> <p>Workshop Organiser: CA. George Thomas, Chairman, Kottayam Branch of SIRC of ICAI. E-mail: gtkavalam@hotmail.com. Mobile: 9388443604</p> <p>Institute Coordinator: Mrs. Indu Arora, Secretary, IT Committee, Additional Director, The Institute of Chartered Accountants of India, 52-54, Vishwas Nagar Institutional Area, (Near Karkardooma Court), Shahdara, Delhi-110032. Telephone No. 011-30210619/621. E-mail- indu@icai.org.</p>	

Programme on Accounting Standard 15 (Revised) on Employee Benefits with Inputs on Actuarial Sciences for Chartered Accountants Organised by Committee on Insurance & Pension of ICAI and Hosted by Western India Regional Council of ICAI			
Date & Time June 21st, 2008 (Saturday), 10:00 a.m. To 5:00 p.m.	Venue Hotel Sea Princess, Juhu, Mumbai	CPE Hours 6 Hrs.	
Discussion Sessions (that will be lead by eminent faculties including experts from Actuaries Institute of India)	<ul style="list-style-type: none"> • An overview of AS15 Employee Benefits (Revised) • Actuarial principles with specific reference to gratuity and pension products • Case Study on AS 15 (Revised) with relevant Actuarial Principles • AS15 revised guidelines—issues on hand • Actions points for future and wrap up session 		
Fees: Rs. 1800 for the members of ICAI; Rs.2500 for non-members Payable by Cheque/DD drawn in favour of 'the Institute of Chartered Accountants of India' payable at Mumbai.			
Contact Persons and Contact Details			
CA. Pankaj I. Jain Chairman, Committee on Insurance and Pension of ICAI 022-56385000,22007373 9820087168 9324185000 pankaj@icai.org	CA. Brijmohan Agarwal , Chairman, WIRC of ICAI. 022-26691254-57 9820188573 9322867449 brij@bnmca.com brijmohan@icai.org	CA. Dhiraj Kumar Khan-delwal , Member, WIRC of ICAI 022-22073080,22073081 9322516004, 9867642684 kdhiraj123@hotmail.com dkkhandelwal@icai.org	Dr. T. Paramasivan Deputy Director (T), ICAI 011-30110491 09350799934 tparamasivan@icai.org
For further details please contact	The Western India Regional Council of the Institute of Chartered Accountants of India, 'ICAI Bhawan', 27 Cuffe Parade, P. B. No. 6081, Colaba, Mumbai – 400 005. Phone: 91 – 22 – 22187985, 39893989, 39802902; Fax: 91 – 22 – 39802954; wirc@icai.org ; insurance@icai.org		
Web link and websites	http://www.icai.org/icairoot/announcements/announ1403.pdf www.icai.org ; www.insuranceicai.org		

Workshop on Insurance Survey & Loss Assessment with special reference to Loss of Profit Policies Committee on Insurance and Pension of ICAI Jointly with NIRC of ICAI			
Theme: Due to rapid growth in the insurance sector and increasing number of insurance players in the market, the demand of the survey and loss assessor has been continuously increasing. The Chartered Accountants having keen analytical ability and excellent technical skill can provide their services in the area of Loss of Profit Policies.			
Date & Time June 23 rd , 2008	Venue Le Meridien, New Delhi*	CPE Hours 6 hours	
Discussion Sessions (Speakers would be CA's specialising and Insurance Companies in loss of profit policies, experts from Indian Institute of Insurance Survey and Loss Assessors)			
(i) Features of the Loss of Profits Policy		(iii) Issues in the preparation of a sound Report/Claim	
(ii) Assessment/Computation of Loss		(iv) Case Studies on Loss of Profits Policies	
Fees: Rs.1000 per member of ICAI and Rs.1500 for others. Fee should be payable by Cheque/DD favouring "The Institute of Chartered Accountants of India" payable at New Delhi			
Contact Persons and Contact details			
CA. Pankaj I. Jain , Chairman, Committee on Insurance and Pension of ICAI, 022-56385000, 2200737, 9820087168, 9324185000, pankaj@icai.org			
CA. Vijay Kumar Gupta, FCA , Vice Chairman, Committee on Insurance and Pension of ICAI, 0129- 2423639, 4030115(Faridabad), 011-23314525-26 (Delhi), 9810050029, vkg2004@vsnl.com , vkgupta@nda.vsnl.net.in ;			
CA. Sudhir Kumar Agarwal , Chairman, NIRC of ICAI, 011-2248189, 981102104, sudhiricai@yahoo.com			
Dr. T. Paramasivan , Secretary Committee on Insurance and Pension, 011-3011049, 09350799934, tparamasivan@icai.org			
Website & URL of the detailed Announcement		http://www.icai.org/icairoot/announcements/announ1420.pdf	

**National Seminar on Non Banking Finance Companies
Organised by Committee on Economic & Commercial Laws, ICAI and Hosted by EIRC of ICAI**

<i>Date</i>	<i>Venue</i>	<i>CPE Hours</i>	<i>Fees</i>
Saturday, June 14, 2008	Galaxy Hall, Park Hotel, Kolkata	Hours 6	Rs 1000/-
Discussion Sessions			
1 st Technical Session: Overview of Laws relating to Non Banking Finance Activities		3 rd Technical Session: Direct & Indirect Tax Issues in NBFC	
2 nd Technical Session: RBI Directions for NBFCs including auditors report		4 th Technical Session: NBFC as a business Model – Consultation & Advisory Services in NBFCs	
Contact Persons and Contact Details			
CA. Rajkumar S. Adukia Chairman, Committee on Economic & Commercial Laws, ICAI Programme Chairman Cell: +91 98200 61049 rajkumarfca@gmail.com	CA. Subodh Kumar Agarwal , Central Council Member, ICAI Programme Director Cell: +91 98300-22848 subodhka@yahoo.com	CA. Nirupam Halder , Chairman EIRC of ICAI, Programme Co-coordinator 09830110453, eirchairman@icai.org	CA. B. Muralidharan , Deputy Secretary (WRO) Secretary, Committee on Economic & Commercial Laws, ICAI 9321239891 bmurali@icai.org

‘Conclave of Audit Professionals’

Organised by Continuing Professional Education Committee and Auditing and Assurance Standards Board

Date & Time	Venue	CPE Credit Hours	
Friday 27th June, 2008 (4 PM to 8 PM followed by dinner)	Hotel ‘The Park’, New Delhi	4 hours	
Discussion Sessions			
The said Conclave would be addressed by eminent speakers, whose names would be announced shortly.			
Theme A: Convergence of Indian Auditing and Assurance Standards with International Auditing Standards			
Theme B: Standard on Quality Control (SQCI) - Improving Audit Quality of Firms			
Theme C: Risk Based Audits – Recent Trends			
Fees: Rs.750/- per Member			
Cheque (local)/DD should be in favour of The Secretary, The Institute of Chartered Accountants of India, payable at New Delhi may be sent to, Additional Director (CPE & CMII), The Institute of Chartered Accountants of India, ‘ICAI BHAWAN’, Indraprastha Marg, New Delhi – 110 002. For further details kindly contact the CPE Secretariat at T.No.s 011-30110451,30110438,30110440 and E-Mail- ids cpesec@icai.org, cpadmin@icai.org			
Contact Persons and Contact Details			
Conclave Chairmen		Conclave Co-ordinators	
CA. K. Raghu Chairman, CPE Committee Kraghu9999@gmail.com Mobile No. 9341219091	CA. Harinderjit Singh Chairman, AASB harinderjit.singh@in.pwc.com Mobile No. 9810187341	Shri Vijay Kapur Director, AASB aasb@icai.org Ph. No. 0120-3054846	Dr. M.S. Turan Additional Director (CPE&CMII) ms.turan@icai.org Mobile No.9312209533

“ACCOUNTANT’S BROWSER”

“PROFESSIONAL NEWS & VIEWS PUBLISHED ELSEWHERE”

1. ACCOUNTING

Meeting the Challenge: *Management Accounting & Value Creation* by Richard Stewart. *The Management Accountant*, April 2008, pp.224-227+231.

Optimising Free Cash flow & liquidity Management by Ken Dummitt. *Accountants Today*, April 2008, pp.31-32.

Shortcomings of Fair – Value Accounting Described in SFAS 157 by George J. Benston, *Journal of Accounting & Public Policy*, vol. 27, 2008, pp.101-114.

Transforming Goodwill by Mark Wardell. *CGA Magazine*, March- April 2008, pp.12-13.

2. AUDITING

Auditor Rotation & the Appearance of Independence: Evidence from Non-Professional Investors by Steven E. Kaplan & E.G. Mauldin. *Journal of Accounting & Public Policy*, vol. 27, 2008, pp.177-192.

Cost Competitiveness & Indian Economy: Significance of Mandatory Cost Audit in the Globalised Regime by Manoj P.K. *The Management Accountant*, April 2008, pp. 204-208 + 211.

Does Auditor Tenure Influence the Reporting of Conservative Earnings? By David S. Jenkins & Uma Velury. *Journal of Accounting & Public Policy*, vol. 27, 2008, pp.115-132.

Internal Controls & Risk. *CGA Magazine*, March-April 2008, pp. 58-59.

Introspection of Cost Audit under the Regime of GATT & GATS by Nilay Kumar Saha. *The Management Accountant*, April 2008, pp.209-211.

Value – for - Money Auditing by Francois Boisclair. *CA magazine*, March 2008, pp. 45-46.

3. ECONOMICS

India’s Foreign Exchange Reserves: A Shield of Comfort or an Albatross? By Nirmal Kumar Chandra. *Eco. & Pol. Weekly*, April 5, 2008, pp.39-51.

India’s Recent Economic Growth: A Closer Look

Index of some useful articles taken from Periodicals received during April - May 2008 for the reference of Faculty/Students & Members of the Institute.

by R. Nagraj. *Eco. & Pol. Weekly*, April 12, 2008, pp. 55-61.

4. EDUCATION

Promoting Knowledge Management Projects in Universities by M.S. Rawat. *University News*, April 7-13, 2008, pp. 5-14.

Role of Libraries in Ensuring Information Literacy & Right to Information by R. Raman Nair. *University News*, March 24-30, 2008, pp.1-12+23.

5. INVESTMENT

The Future of Real Estate Investment Just in India by Manish Raj. *Company Law Journal*, Vol.2, 2008, pp.7-12.

6. LAW

Lessons from Enron & Other Corporate Scandals by Maslina Ahmad & N.B.A. Bakar. *Accountants Today*, April 2008, pp.22-24.

Report of the Sub-Committee on Integrated Disclosures. *Company Law Journal*, Vol.2, 2008, pp.13-50.

Widening the Horizons of Limited Liability Partnership Law (LLP) by Sibaram Tripathy. *The Management Accountant*, April 2008, pp.236-238.

7. MANAGEMENT

Corporate Governance – An Integral Vision by M.S. Srinivasan. *Chartered Secretary*, April 2008, pp.501-503.

Creating a Personal Risk Management Practice - My 16 Commitments by Jack Hungelmann. *Pravartak*, Jan.-March 2008, pp. 45-48.

Embedding Risk Management Practices for Improved Organisational Performance by Patrick Ow. *Accountants Today*, April 2008, pp.26-30.

Ethics the Framework for Success by Steve Hunter. *Strategic Finance*, April 2008, pp.51-53.

Finding the Right Mix: How to Match Strategy & Management Practices to Enhance Firm Performance by Kip R. Krumwiede. *Management Accountant*, Jan.-Feb. 2008, pp.20-25.

Fusion of Corporate Governance & CSR Practices by Lalit Jain. *Chartered Secretary*, April 2008, pp. 483-488.

How Top Performers Get Ahead by Richard Lepsinger. *CGA Magazine*, March-April 2008, pp.19-24.

Indian CEOs: Competencies for Success: Keys to Outstanding Indian Corporate Leadership by Signe M. Spencer etc. *Vision*, Jan-March 2008, pp.1-10.

Making the Transition from Functional Cost Center “Big Brother to Value Adding Key Team Member by Steven P. Landry. *The Management Accountant*, April 2008, pp.218-223

Managing Innovation Risk by Joanna Barsh & Marla M. Capozzi. *Strategic Finance*, April 2008, pp.13-16.

Rise & Fall of Securitised Structured Finance by Alok Sheel & Meeta Ganguly. *Eco. & Pol. Weekly*, April 19, 2008, pp.44-51.

Risk Management & Corporate Governance by Sunil Kumar Banerjee. *Sebi & Corporate Law*, April 21-27, 2008, pp.57-60.

Risk Management & Corporate Governance – Are they the same? By Ted Dahms. *Pravartak*, Jan.-March 2008, pp.39-44.

8. TAXATION

Budget 2008-09 – An Analysis of Social & Economic Impact by A. Mukherjee & M. Rashmi. *Chartered Accountant Practice Journal*, April (2nd) 2008, pp. 227-249

Scope of Exemption of Service Tax in Special Economic Zone by R. Jayaraman. *Service Tax Journal*, April (2nd) 2008, pp.21-24.

Taxability of Interest on Disputed Compensation by Pradip Kapasi & Gautam Nayak. *BCAJ*, April 2008, pp.33-35.

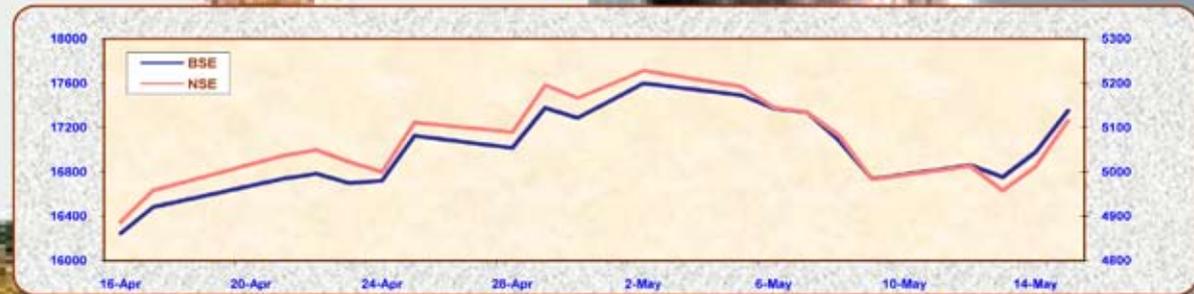
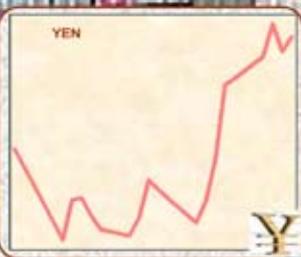
Taxation of Small Enterprises: Recent Developments by Jean-Paul Bodin & Vincent Koukpaizan. *International Vat Monitor*, March-April 2008, pp.121-131.

Towards a Federal Sales Tax in the United States? By Robert F. Van Brederode. *International Vat Monitor*, March-April 2008, pp.114-120. □

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

— Librarian

Economic Indicators



Selected Indicators

Item	Unit/Base	2004-05	2005-06	2008						
				05-May	28-Mar	04-Apr	11-Apr	18-Apr	25-Apr	02-May
Cash Reserve Ratio	per cent	5.00	5.00	6.50	7.50	7.50	7.50	7.50	7.50	7.75
Bank Rate	Per cent per annum	6.00	42.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Prime Lending Rate	Per cent per annum	10.25-10.75	10.25-10.75	12.75-13.25	12.25-12.75	12.25-12.75	12.25-12.75	12.25-12.75	12.25-12.75	12.25-12.75
Deposit Rate	Per cent per annum	5.25 - 6.25	6.00 - 7.00	7.50-9.00	8.25-9.00	8.25-9.00	8.25-9.00	8.25-9.00	8.25-9.00	8.25-9.00
Call Money Rate (Low/High)	Per cent per annum	2.60/6.25	3.00/8.25	5.25/14.00	4.00/9.00	3.50/10.30	1.00/6.50	4.00/7.60	2.00/7.50	4.75/7.50

Economic Update is the new feature introduced recently. Readers are invited to contribute write-ups or any relevant and interesting piece of information for this feature at eboard@icai.org

FASB Issues Its Own GAAP Hierarchy

The Financial Accounting Standards Board has issued FASB Statement No. 162, *"The Hierarchy of Generally Accepted Accounting Principles,"* intended as a replacement for the American Institute of CPAs' GAAP hierarchy. The new standard is intended to improve financial reporting by identifying a consistent framework for selecting accounting principles to be used in preparing financial statements for nongovernmental entities in accordance with U.S. GAAP. Prior to the issuance of Statement 162, GAAP hierarchy was defined by the AICPA's Statement on Auditing Standards No. 69. However, FASB noted that SAS 69 has been criticised because it is directed to the auditor rather than the entity. FASB Statement 162 establishes that the GAAP hierarchy should instead be directed to entities. Statement 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board's amendments to AU Section 411, *"The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles."* It is only effective for nongovernmental entities. Therefore, the GAAP hierarchy will remain in SAS 69 for state, local and federal governmental entities.

(www.ifac.org)

FASB to Get Tougher on Subprime Loan Sell-offs

The Financial Accounting Standards Board may change some accounting rules to make it more difficult for banks to get subprime loans off their books. At an accounting conference at Baruch College in New York, FASB Chairman Robert Herz said the rules might require banks to keep loans on their books that they previously have been able to package and sell off or securitise. FASB voted last month to eliminate special securitisation vehicles. Herz said banks would have to use other rules for off-balance-sheet vehicles and that these rules might get tougher as well. In addition, banks could face more rigid tests for which assets could remain off their books.

(www.webcpa.com)

Renewed Thrust on Plan for Convergence

U.S. and foreign accounting rule makers will soon debut their plan to speed up the convergence of international and U.S. accounting rules, with the aim that all major capital markets would be able to operate from one set of standards by 2013. While the U.S. Securities and Exchange Commission has yet to set a timeline for the United States to adopt International Financial Reporting Standards (IFRS), accounting rule makers believe they will have to accomplish years of work in record time and are barreling down the convergence path full speed ahead. FASB and International Accounting Standards Board (IASB) expect to release an updated "Memorandum of Understanding" that will lay out how the boards plan to work together and prepare the industry for one set of accounting standards.

(www.financialweek.com)

XBRL Europe Organisation Formed

XBRL International, Inc. has formed XBRL Europe, a non-profit association based in Brussels to represent, coordinate and support XBRL members within Europe in their efforts to drive XBRL strategy and adoption across the region. Founding members of XBRL Europe are: XBRL Belgium; XBRL France; XBRL Ireland; XBRL Spain; and XBRL International. XBRL Europe will act as the regional point of contact in Europe for European institutions and organisations in order to assure the common promotion of XBRL.

(accounting.smartpros.com)

PCAOB Adopts Ethics and Independence Rule

The Public Company Accounting Oversight Board has voted to adopt a new ethics and independence rule concerning communications with audit committees, as well as an amendment to its existing tax services rule. The PCAOB adopted Rule 3526, "Communication with Audit Committees Concerning Independence," and an amendment to Rule 3523, "Tax Services for Persons in Financial Reporting Oversight Roles." The board adopted Rule 3526 to enhance communication between audit committees and registered firms regarding the firm's independence. Rule 3526 will require a registered public accounting firm, before accepting an initial engagement pursuant to the standards of the PCAOB, to describe in writing to the audit committee all relationships between the firm or any of its affiliates and the issuer or persons in a financial reporting oversight role at the issuer that may reasonably be thought to bear on the firm's independence. Registered firms will also be required to discuss with the audit committee the potential effects of any such relationships on the firm's independence. Rule 3526 will require firms to make a similar communication annually for continuing engagements.

(www.webcpa.com)

Treasury Committee Suggests Professional Priorities

The Treasury Department's Advisory Committee on the Auditing Profession has released a draft report outlining recommendations for improving the profession. Among many proposed recommendations, the committee suggested implementing market-driven curricula and content for accounting students that continuously evolve to meet the needs of the auditing profession. The accounting certification examinations should be updated on a regular basis to reflect changes in the profession. The committee recommended strengthening audit firms' fraud detection and prevention skills, and clarifying communications with investors regarding auditing firms' fraud detection responsibilities.

In the areas of concentration and competition, the committee recommended reducing the barriers to growth of smaller auditing firms. Public companies would be required to disclose in their annual reports and proxy statements any agreements with third parties that limit auditor choice. The committee recommended monitoring potential sources of catastrophic risk faced by public company auditing firms and creating a mechanism for the preservation and rehabilitation of troubled larger public company auditing firms. In addition, the committee recommended adopting annual shareholder ratification of public company auditors by all public companies.

www.webcpa.com

CAREER WATCH

(Continued from page 2084)

Top Ten Remunerations offered during the February-March-April, 2008 Campus Interviews

S No.	Company Name	Remuneration Offered (Rs. In lacs P. A.)
1	Qatar Insurance Company	16.17 (International Posting)
2	ABN AMRO	12.00
3(a)	Sharaf Shipping	11.02* (International Posting)
3(b)	Nestle	11.00
4	ITC	10.62
5	RAK Ceramics Psc* (International Posting)	10.50
6	Sunrise & Co.(Pte.) Ltd	10.00
7	ETA Escon group of Companies	9.72* (International Posting)
8	KEC Limited	9.50
9	ICICI Bank	8.34

10(a)	S R Batliboi & Associates	8.00
10(b)	United Finance	8.00 (International Posting)

* 1 AED=10.8 INR

Spreading Wings: There were 26 new entities joined in the Campus Placement Programme for the first time, some of them were

S No.	Company Name
1.	Adventity BPO India Pvt. Ltd
2.	Birla Corporation Limited
3.	DSP Merrill Lynch
4.	Essar Oil limited
5.	ICICI Securities Ltd.
6.	IFCI
7.	Qatar Insurance Company
8.	Steel Authority of India Ltd.

For further details kindly visit www.placements-icai.org

Where the Newly Qualified Chartered Accountants are heading in Industry¹

The Committee for Members in Industry (CMII) of the Institute has successfully organised one more round of campus placement programme during February-March-April 2008 at sixteen centers viz. Ahmedabad, Bangalore, Chandigarh, Chennai, Coimbatore, Ernakulam, Hyderabad, Indore, Jaipur, Kanpur, Kolkata, Mumbai, Nagpur, New Delhi, Pune, Surat for those candidates who have qualified in November 2007 examination. In all **3781** candidates had the opportunity to avail this service. The bio-data of these professionals were classified centre-wise and they were given an opportunity to meet 243 interview boards of 109 organisations at sixteen centres.

Executive Summary of the Campus Placement Programme

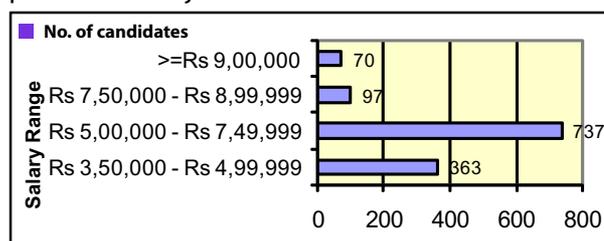
1. Highest salary offered for International posting in the Campus Placement Programme is Rs.16.17 Lacs per annum.
2. Highest salary offered for domestic posting in the Campus Placement Programme is Rs.12.00 Lacs per annum.
3. Around 1500 jobs were offered to the candidates who participated in Campus Placement Programme.
4. The average salary offered to the newly qualified Chartered Accountants is about Rs.6 Lacs per annum.
5. 109 companies have participated during the Campus Placement Programme.
6. 243 Interview Panels have participated during the Campus Placement Programme.
7. Banking sector (13.97%) is amongst the highest recruiter of all sectors, but sectors like IT Software (11.30%), Oil & Gas refining (8.87%), Financial Services (8.32%), Mining (5.65%) are the major recruiters.
8. Twenty-Six new recruiting entities have also joined in the Campus Placement Programme for the first time.

9. There is an increase of about 126% in the number of newly qualified Chartered Accountants who have been offered salary in the range of Rs.9 Lacs and above.
10. The Committee for Members in Industry brought out publication on 'Quick Review Questions' & 'How to face an Interview Board' to enable the candidates to prepare for their Interviews.
11. The committee organised Orientation Programme for candidates to sharpen their soft skills and give updates on the Technical side.

Trends in Salary Packages

In the February-March-April 2008 Campus Placement Programme the maximum salary offered to four candidates were Rs.16.17 Lacs per annum for International Posting. For Indian posting the maximum salary offered to five candidates were Rs.12.00 Lacs per annum.

The average salary works out to be about Rs.6 Lacs per annum. Major details are as below:



Top Recruiters during the February-March-April 2008 Campus Interviews

S No	Company Name	Selected
1	ICICI Bank	135
2	Deloitte	90
3	RIL	77
4	Vedanta	72
5	Infosys Technologies Ltd.	61
6	Tata Consultancy Services	58

(Continued on page 2086)

¹ Prepared by the Secretariat of the CMII. Information given is as on 12/05/08 at 1200 hrs. Comments are welcome at placements@icai.org

Committee on Trade Laws and WTO

Over the past few years, globalisation has altered the pattern of economics the world over. No economy can now remain insular to the winds of change that gather around us. The service sector has become the largest and the most rapidly expanding sector in most economies, accounting for well over 60% of the world's GDP. Services account for a large share of production and employment in most economies and they are also coming to dominate the economic activities of countries at virtually every stage of development, making services trade liberalization a necessity for the integration of the world economy.

Developing countries have been striving hard, often at a considerable cost, to integrate more closely into the world economy. While a certain amount of adjustments and compromises are inevitable, the negotiations have to be guided by a trade-off between the issues of market access and domestic concerns so that the new world trade order does not result in deleterious consequences for the less-developed nations. Behind a backdrop of pulls and pressures, of tough negotiations and bargaining postures, the question naturally arises as to how our economy will respond to the rapidly evolving international trading environment. The task ahead is difficult and would require the deliberate and conscious effort and cooperation of all sections of Indian society. As a qualified professional, the Indian Chartered Accountant is in an advantageous position to provide the skills and services to different sections engaged in international trade. To perform this role effectively, the Chartered Accountant needs to understand the WTO regime and assess the importance and implications of various rules that could impinge on the country's trade activities and relations. The Chartered Accountant has to be aware of the consequences of implementation or non-implementation of particular trade laws on the Indian economy. It is in this wider context, that the Institute had constituted a Committee on Trade Laws and WTO as a non-standing Committee in the year 2001.

The Committee on Trade Laws and WTO had been formed with the mission to establish and assure the expertise and authority of the Institute of Chartered Accountants of India in all matters concerning Laws of Trade including Trade in Goods and Services in particular, and the implementation of international trade regimes including the WTO regime in general, both nationally and internationally, and to create and expand a base of expertise in these matters among the membership of the Institute through such ways and means as are considered to be most effective so as to fulfil national stated and unstated aspirations, concerns, and needs in all these regards.

The Committee's composition includes members of the Council of the ICAI, members co-opted to the Committee from various parts of the country and other experts invited from time to time at the deliberations of the Committee. Moving ahead with its mission, the Committee continues to strive for capacity building of members in the rapidly changing world trade scenario in order to technically equip the members of the Institute to face the challenges and derive advantages to broaden the scope of their expertise in the new world trading regime and to contribute towards the economic development of India.

The Committee had introduced a Post Qualification Course in International Trade Laws and World Trade Organisation to orient Chartered Accountants towards developing the necessary and desirable capabilities to adapt and respond to the dynamic and challenging international economic environment. This Course has also been receiving a good response from the members. After the successful launch of the Post Qualification Course in International Trade Laws & WTO (ITL & WTO) in November 2004, a total of 288 members have been registered in the course from across the country. One of the prominent components of the course involves a 30 days Personal Contact Programme (PCP) which is being conducted from time to time each year. Eminent faculty consisting of Senior Government Officials from different Ministries/ Departments, such as the Ministry of Commerce, the Ministry of Finance, the Ministry of Small Scale Industries, the Directorate General of Safeguards, the Directorate General of Foreign Trade, the Competition Commission of India, the Export Inspection Council of India, the Copyright Board, faculty from Indian Institute of Foreign Trade, Indian Institute of Public Administration, University of Delhi, Delhi School of Economics, Confederation of Indian Industry, noted law firms, people from trade and industry, professionals, consultants and other research based organisations in the field of International Trade and WTO make presentations and deliver lectures during the PCP. Now, the syllabus, course structure, study material and the framework of the Post Qualification Course in International Trade Laws and WTO are proposed to be realigned with a view to give a focused outlook to the overall structure of the Course. The scheme is, however, pending for approval by the Government. The Committee has decided to take efforts to popularise the Course amongst members throughout the country and also to promote the Course in the industry, the Government and other potential user-groups to create professional avenues for members so equipped in International Trade Laws and the WTO field.

With the basic objective of providing guidance to Chartered Accountants in practice and in service and others concerned with having an insight in various fields and on issues of relevance to International Trade Laws and WTO, the Committee has released the following publications during the period 2007-08:-

- A Handbook on Anti-Dumping, Anti- Subsidy and Safeguard Measures
- A Handbook on Laws Relating to Intellectual Property Rights in India
- A Handbook on Valuation of Intellectual Property in Emerging Countries Like India – Accounting to take lead role now
- A Handbook on Special Economic Zones
- Study on Tax Havens
- Canadian Advantage – A Research Study on Canadian Business Opportunities

Other Research Initiatives/Projects in Progress:

- Study on International Commercial Arbitration
- Study on Cross- Border Acquisitions and Mergers
- Study on Benefits of Preferential Trade Agreements
- Country specific research studies for vari-

ous countries for (a) setting-up businesses in such countries; and (b) operating as professional accountants in such countries

In this era of globalisation, there has been a lot of FDI coming to India as well as going to other countries from India. Hence, the Committee has also been exploring the possibility of offering assistance to all major foreign business delegations relating to the accountancy sector coming to India in order to create more avenues of professional development for it's Members. In pursuance of this, the Committee had organized an interaction with the Trade Counsellors of various embassies in India on March 26, 2008 at New Delhi.

The Committee has decided to strengthen the 'WTO Technical Desk' to provide responses to technical queries on issues related to International Trade Laws and the World Trade Organisation vis-à-vis the accounting profession in India and professional opportunities arising there from.

The Knowledge sharing page developed by the Committee and displayed at the website of the Institute continues to provide useful and relevant information on the basic understanding of WTO. The page intends to keep the members abreast of latest development in the ever-changing global trading environment. Now, the Committee also proposes to develop a separate portal on WTO to meet the emerging needs of the members in this regard. □

India Grew by 15 Per Cent in Dollar Terms

The Indian economy expanded by a whopping 15 per cent every year during the last five years! Sounds incredible? Credible, says a Columbia University professor, if we measure growth in dollar terms. "During the last five years, the rupee has been appreciating about six-seven per cent on an annual basis. So if one does a calculation actually, in real dollars Indian economy has been growing at about 15 per cent in the last five years," said the professor Arvind Panagariya. If the country sustained it, it would emerge from being an about 1.2 trillion dollar economy to 18 trillion dollar economy in 20 years, bigger than the current size of the US economy.

Taxpayers Given Time to Comply with TDS

The Government has relaxed the provisions concerning Tax Deduction at Source (TDS) allowing Companies and taxpayers more time to comply with the norms, even while expressing its intention to collect nearly 100 per cent taxes through TDS and advance taxes. The taxpayers, pursuant to amendments in the Finance Bill 2008, would get additional six months for depositing TDS for March, the last month of a financial year. The amendments have to be given retrospective effect from assessment year 2005-06. This will also take care of most hardship cases where some genuine mistake was committed.

Banking Transaction Tax to go

With the Government devising alternative ways to trail black money, the Banking Transaction Tax will be withdrawn by the end of this year, the Finance Minister has said. The BTT was introduced for a specific purpose of detecting unaccounted money in the absence of alternative methods. The alternative methods to catch people with unaccounted money would be provided by the provisions in the new Money Laundering Law.

Service Charges on Monetary Transactions by Banks

With effect from September 1999, banks have been given freedom to fix service charges for various types of services rendered by them. In order to ensure transparency in banking services, Reserve Bank of India has issued instructions to banks on May 16, 2006, to display and update the details of various service charges in the prescribed format on their websites and in their offices/branches. While fixing the service charges, the banks are expected to ensure that the charges are reasonable, consistent with the cost of providing the services and that the customers with low value/volume of transactions are not penalised.

New Company Law Bill to be Introduced in Monsoon Session

The much-awaited new Company Law Bill will be introduced in the next session of Parliament. The bill is with the Law Ministry, which is giving it final touches. The new bill will replace the existing Company Act 1956. The new law will promote good corporate governance and lead to effective protection of investors.

Finance Ministry in Dock Over Tax Code Delay

The Parliamentary Standing Committee on Finance has passed strictures against the finance ministry for the delay in introducing the draft direct tax code for legislation to replace the voluminous Income Tax Act, 1961. The committee regrets to find that even one year after its recommendation, the amendment Bill is yet to be introduced in Parliament, the committee said, seeking a response on the matter.

Special Courts for Company Law Breaches

Corporate houses could soon expect their lapses and offences being adjudicated on a faster pace. In a move to avoid judicial delays consuming the time and resources of companies, the government would soon set up special courts across the country to exclusively handle cases of company law violations. The move is a part of rationalising the penalty structure and dispute settling mechanism that the government is contemplating in the new company law.

AUDITING AND ASSURANCE STANDARDS BOARD – RECENT DEVELOPMENTS

The Auditing and Assurance Standards Board of the Institute of Chartered Accountants of India is the national standard setting body with the responsibility of developing Standards on Auditing codifying the best practices in the area of auditing in the country. The Standards are issued under the authority of the Council of the Institute and are mandatory in nature. As international standards in audit and attest services become accepted worldwide, and these standards become common in cross-border operations and financing, it is clear that the relationship with the International Auditing and Assurance Standards Board (IAASB) International benchmarking is quintessential if the Indian chartered accountants are to find acceptability and make their presence felt worldwide. With that perspective in mind, the Institute in the year 1977, became a founder member of the International Federation of Accountants (IFAC). Convergence with the international standards being one of the membership obligations of the Institute, the auditing and other Standards issued by the ICAI are in conformity with those issued by the IAASB. Accordingly, the *"Preface to the Statements on Standard Auditing Practices"* (issued in 1983) laid down that while formulating Auditing and Assurance Standards in India, the AASB will give due consideration to the International Audit Guidelines issued by the IAASB and try to integrate them, to the extent possible, in the light of the conditions and practices prevailing in India. The Institute had issued 35 Auditing and Assurance Standards till July 2007.

Revised Preface to Standards on Quality Control, Auditing, Review, Other Assurance and Related Services

Keeping pace with the developments at the International level, the AASB after going through its rigorous due process, in July 2007 published the *Revised Preface to Standards on Quality Control, Auditing, Review, Other Assurance and Related*

Services which has come into force with effect from April 1, 2008. The Revised Preface facilitates understanding of the scope and authority of the pronouncements of the AASB issued under the authority of the Council of the ICAI. The Revised Preface is set to change the face of the auditing literature from what it is now, introducing some fundamental concepts.

Engagement Standards

Whereas till date all the auditing standards issued by the AASB were all known as the Auditing and Assurance Standards, the new Preface categorises and christens the standards based on the nature of service being provided by a member. It, therefore, introduces an umbrella concept of Engagement Standards. The term "Engagement Standards" comprises the following Standards:

- (a) *Standards on Auditing (SAs)*, to be applied in the audit of historical financial information by an independent auditor. They are to be adapted as necessary in the circumstances when applied to audits of other historical financial information.
- (b) *Standards on Review Engagements (SREs)*, to be applied in the review of historical financial information.
- (c) *Standards on Assurance Engagements (SAEs)*, to be applied in assurance engagements, dealing with subject matters other than historical financial information.
- (d) *Standards on Related Services (SRSs)*, to be applied to engagements involving application of agreed upon procedures to information, compilation engagements, and other related services engagements, as may be specified by the ICAI.

The best job goes to the person who can get it done without passing the buck or coming back with excuses.

The new Preface therefore, does away with the terminology "Auditing and Assurance Standards" in use till date.

It also contains provisions for standards to be known as the Standards on Quality Control (SQC), which would be fundamental to all the services covered by the Engagement Standards.

New Format of Presenting the Standards on Auditing

The Revised Preface provides that instead of a running text, the Standards on Auditing would now contain two distinct sections, one, the Requirements section and, two, the Application Guidance section.

The fundamental principles of the Standard would be contained in the Requirements section and represented by use of "shall". Hitherto, the word, "should" was used in the Standards, for this purpose. Further, this format would also do away with the need to present the principles laid down by the Standard in bold text.

The application and other explanatory material contained in an SA would be an integral part of the SA as it provides further explanation of, and guidance for carrying out, the requirements of an SA, along with the background information on the matters addressed in the SA. It may include examples of procedures, some of which the auditor may judge to be appropriate in the circumstances. Such guidance is, however, not intended to impose a requirement.

Renumbering of Standards

The new Preface coupled with the difficulties otherwise being faced by the Board in writing Standards on the conventions followed by the IAASB, necessitated the need to adopt a new numbering pattern for the engagement standards discussed in the new Preface. Whereas hitherto the auditing standards were being allotted sequential numbers as and when they were issued, the new Preface requires these standards to be categorised on the basis of the

specific aspect of audit that they deal with and accordingly allotted the number. These categories are as follows:

Category	Number Series
Standards on Quality Control	01 – 99
Introductory Matters	100 - 199
General Principles and Responsibilities	200 – 299
Risk Assessment and Responses to Assessed Risks	300 – 499
Audit Evidence	500 – 599
Using Work of Others	600 - 699
Audit Conclusions and Reporting	700 - 799
Specialised Areas	800 - 899
Standards on Review Engagements	2000 – 2699
Standards on Assurance Engagements	3000 - 3399
Subject Specific Standards	3400 – 3699
Standards on Related Services	4000 - 4699

A complete list of the reclassified and re-categorised Auditing and Assurance Standards is given in the Appendix 1. Also given in Appendix 2 is the diagrammatic representation of the structure of Engagement Standards.

The Council of the Institute has also issued Standard on Quality Control (SQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements*. This Standard is an all pervasive Standard in respect of quality control. The Standard is recommended from April 1, 2008 and mandatory from April 1, 2009. As the name suggests, the SQC 1 contains extensive requirements in relation to establishment and maintenance of a system of

To reach a great height a person needs to have great depth.

quality control in the audit firms as well as even for sole practitioners.

Further, the Council has also already approved the following Standards on Auditing:

SA 240, <i>The Auditor's Consideration of Fraud in an Audit of Financial Statements</i>	Effective 1 st April, 2009	Published in December, 2007 issue of 'The Chartered Accountant'
SA 300, <i>Planning an Audit of Financial Statements</i>	Effective 1 st April, 2008	Published in December, 2007 issue of 'The Chartered Accountant'

SA 315, <i>Identifying and Assessing the Risks of Material Misstatement through Understanding The Entity and Its Environment</i>	Effective 1 st April, 2008	Published in February, 2008 issue of 'The Chartered Accountant'
SA 330, <i>The Auditor's Responses to Assessed Risks</i>	Effective 1 st April, 2008	Published in February, 2008 issue of 'The Chartered Accountant'

APPENDIX 1

Classification of the Auditing and Assurance Standards in Accordance With Preface to the Standards on Quality Control, Auditing, Review, Other Assurance and Related Services (Effective from 1st April, 2008)

QUALITY CONTROL		
New Standard Number (SQC) (1-99)	Standards on Quality Control (SQCs)	Corresponding Existing Auditing and Assurance Standard (AAS) Number
1	Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements	-
AUDITS AND REVIEWS OF HISTORICAL FINANCIAL INFORMATION		
New Standard Number (SA) (100-999)	Standards on Auditing (SAs)	Corresponding Existing AAS Number
100-199	INTRODUCTORY MATTERS	
200-299	GENERAL PRINCIPLES AND RESPONSIBILITIES	

The harder you fall, the higher you bounce.

200	Basic Principles Governing an Audit	1
200A	Objective and Scope of the Audit of Financial Statements	2
210	Terms of Audit Engagement	26
220	Quality Control for Audit Work	17
230	Documentation	3
240	The Auditor's Responsibility to Consider Fraud and Error in an Audit of Financial Statements	4
250	Consideration of Laws and Regulations in an Audit of Financial Statements	21
260	Communications of Audit Matters with Those Charged with Governance	27
299	Responsibility of Joint Auditors	12
300-499	RISK ASSESSMENT AND RESPONSE TO ASSESSED RISKS	
300	Audit Planning	8
310	Knowledge of the Business	20
315	Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement	
320	Audit Materiality	13
330	The Auditor's Procedures in Response to Assessed Risks	
400	Risk Assessments and Internal Control	6
401	Audit in a Computer Information Systems Environment	29
402	Audit Considerations Relating to Entities Using Service Organisations	24
500 – 599	AUDIT EVIDENCE	
500	Audit Evidence	5
501	Audit Evidence – Additional Considerations for Specific Items	34
505	External Confirmations	30

Destiny is not a matter of chance, it is a matter of choice; it is not a thing to be waited for, it is a thing to be achieved.

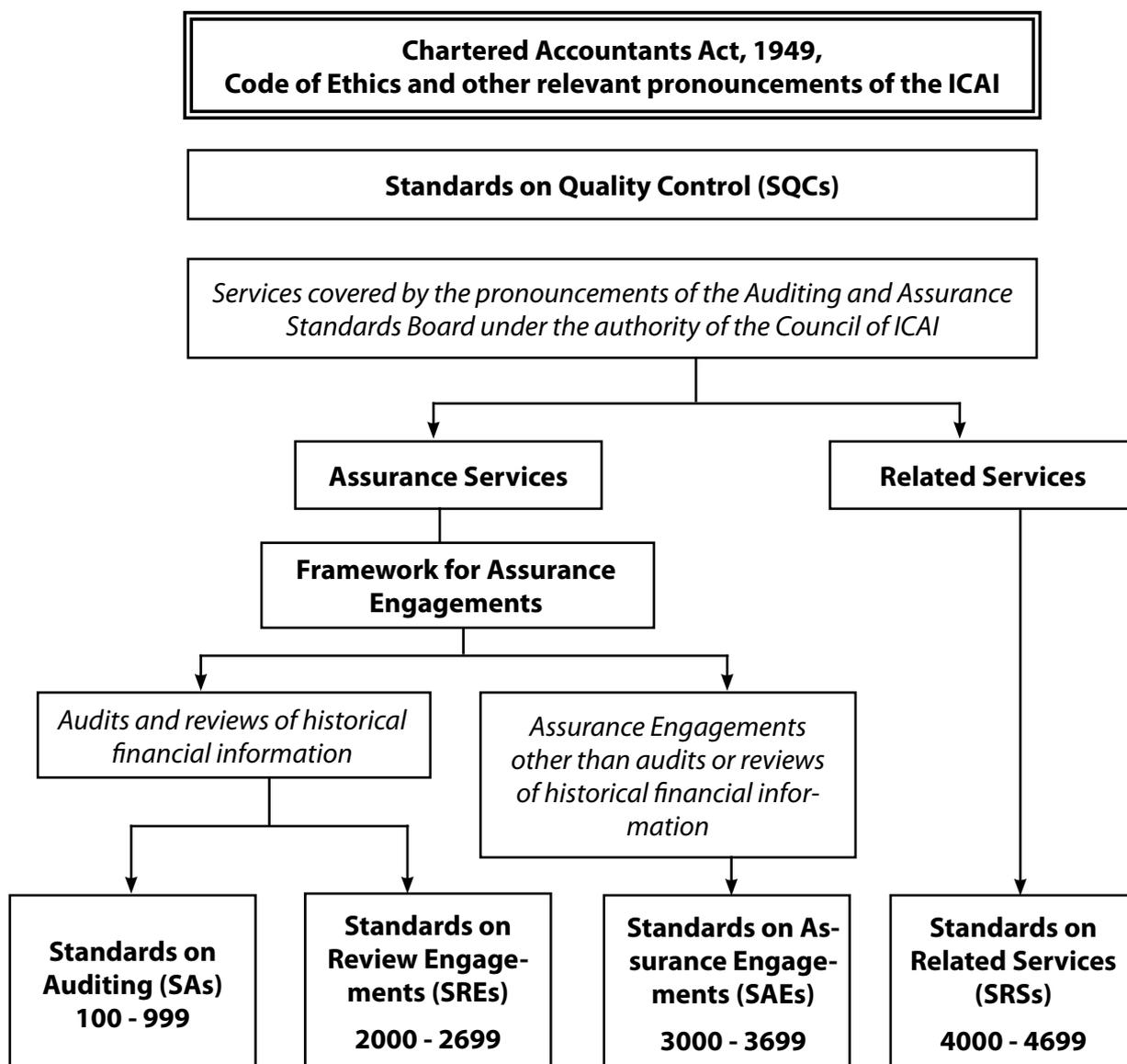
510	Initial Engagements – Opening Balances	22
520	Analytical Procedures	14
530	Audit Sampling	15
540	Audit of Accounting Estimates	18
550	Related Parties	23
560	Subsequent Events	19
570	Going Concern	16
580	Representations by Management	11
600-699	USING WORK OF OTHERS	
600	Using the Work of Another Auditor	10
610	Relying Upon the Work of an Internal Auditor	7
620	Using the Work of an Expert	9
700-799	AUDIT CONCLUSIONS AND REPORTING	
700	The Auditor's Report on Financial Statements	28
710	Comparatives	25
800-899	SPECIALISED AREAS	
New Standard Number (SRE) (2000-2699)	Standards on Review Engagements (SREs)	Corresponding Existing AAS Number
2400	Engagements to Review Financial Statements	33
ASSURANCE ENGAGEMENTS OTHER THAN AUDITS OR REVIEWS OF HISTORICAL FINANCIAL INFORMATION		
New Standard Number (SAE) (3000-3699)	Standards on Assurance Engagements (SAEs)	Corresponding Existing AAS Number
3000-3399	APPLICABLE TO ALL ASSURANCE ENGAGEMENTS	
3400-3699	SUBJECT SPECIFIC STANDARDS	
3400	The Examination of Prospective Financial Information	35

There is nothing either good or bad, but thinking makes it so.

RELATED SERVICES		
New Standard Number (SRS) (4000-4699)	Standards on Related Services (SRSs)	Corresponding Existing AAS Number
4400	Engagements to Perform Agreed-upon Procedures Regarding Financial Information	32
4410	Engagements to Compile Financial Information	31

APPENDIX 2

Structure of Standards Issued By Auditing and Assurance Standards Board Under the Authority Of The Council Of ICAI



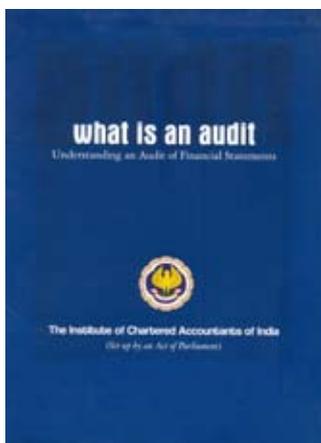
Human beings can alter their lives by altering their attitudes of mind.

Auditing and Assurance Standards Board

The Auditing and Assurance Standards Board is a non-standing Committee of the Council of the Institute of Chartered Accountants of India. Established formally in September, 1982, the Board is entrusted with the critical task of equipping the practicing members with knowledge and skill sets necessary to perform their attest and related functions in the most efficient and effective manner. Towards this end the Board brings out internationally benchmarked engagement standards as well as guidance notes, studies, etc. Recently, the Board brought out the following publications.

What is an Audit – Understanding an Audit of Financial Statements

This first of its kind brochure recently brought out by the Board aims at helping bridge the Expectation Gap by trying to beak the most common myths associated with an audit of financial statements. The Brochure is a compact publication explaining the genesis of audit, importance of financial reporting, myths associated with audit, inherent limitations of an audit *vis a vis* detection of frauds, etc. To help the users of the audit report comprehend the information contained therein, the Brochure also tries to explain in a simple language the fundamentals of an audit report, the various types of opinions used in an audit report, the value commanded by the audit report. Simple language, absence of technical jargon, logical sequencing of topics, and professional presentation and designing are some of the highs of the Brochure.

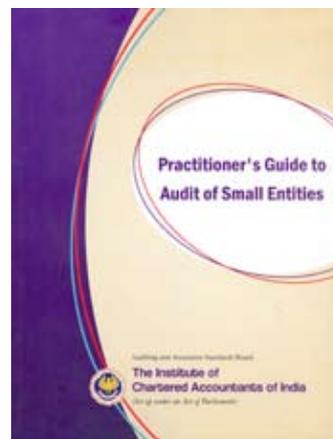


As a service to the society and the profession, the Brochure is being distributed free of cost among the users of the audit reports, essentially, the industry, academic institutions, government departments, etc. In case the members would like to have some copies of the Brochure for distributing among the users of their services, they can write to the AASB Secretariat at aasb@icai.org, mentioning clearly their contact details, their membership

number and the number of copies required. The Brochure is also freely downloadable from the Board's knowledge page on www.icai.org.

Practitioner's Guide to Audit of Small Entities (Rs. 300/-)

The economic profile of the accountancy firms in India is marked by the overwhelming majority of small firms. At the last count, of approximately 45,700 accountancy firms in India, nearly 31,950 (that is closer to 70 per cent) were sole proprietorship firms. These firms are marked by limitations in terms of physical, financial and human resources, operating also in far flung non-metros of the country. Their clients too are more or less small and medium enterprise with relatively simpler and less voluminous transactions and accounting issues. Though the Board has always maintained a stand that auditing principles apply universally to all types of clients, big or small, and to all types of practitioners, sole proprietors or the large partnership accountancy firms, yet implementation of the high quality and stringent principle based engagement standards issued by the Institute may pose certain challenges to audit of small clients.



In view of the above, Board has recently published a Practitioner's Guide to Audit of Small Entities, again a first of its kind publication. The Guide is a step-by-step approach to audit of small clients, which display the peculiarities listed in the Guide. The Guide is based on "model working papers" format beginning from engagement acceptance, administration of audit, planning and control, working papers, balance sheet items, items of the profit and loss account. The Guide also contains checklists for Auditing and Assurance Standards, disclosures relating to investments, illustrative letters of confirmation of inventories held by others, confirmation of accounts receivables, disclosures under Accounting Standards.

The Guide comes with a CD of the entire Guide, including model working papers to ensure ease of reference and reusability.

An optimist is a person who sees a green light everywhere. The pessimist sees only the red light. But the truly wise person is colour blind.

CENTRAL COUNCIL LIBRARY

Central Council Library provides Links for various Library-Web services through www.icaai.org under **“know your Institute – Central Council Library”**. The services are self-explanatory. Some of these links such as list of online Journals, E-books, Articles from Chartered Accountants Journals and online database of Books, Journals and Articles in the Library, provide further search in the above online databases. One can even suggest new Books/Journals under **“Suggest Books/Journal columns”** for consideration by the Institute. One may note that The **“Accountants Browser”** is an index of important/Professional Articles with archives for last 9 years.

Besides above, Library has installed a number of the Institute’s databases in the Central Council Library premises and at various Departments to facilitate the search for required material by the students, Members, Faculties and the Research Scholars.

WEBSERVICES:

The Web Services available on www.icaai.org are as follows:-

- List of Online Journals
- e-Books Links
- Articles from Chartered Accountant Journal (1951 - 2000)
- Articles from Chartered Accountant Journal (2001 - 2005)
- Central Council Library - Online Search for The Books, Journals & Articles in The Library
- List of Books on WTO available in the Central Council Library
- Accountant's Browser
- Addresses of Reference Libraries

- Central Council Library - New Delhi - Conference/Seminar
- CDs Available in The Library
- The Chartered Accountant Index July 2002 - June 2005
- List Of Recommended Books
- Library Security Deposit Rules
- Library News and Views
- List of Journals
- Library Services - Form for Members
- Library Services - Form for Students
- Photographs Available In The Library
- Recent Additions
- SAFA Books/Publications Available in the library
- Suggest Books/Journals

THE ONLINE DATABASE INSTALLED IN THE LIBRARY ARE AS FOLLOWS:

- Library Software – Alice
- Prowess (CMIE)
- CTR Online
- ITR Online
- Manupatralaw.com
- Excus Online
- E-Jurix
- Indlaw.com
- Delnet
- Indiastat.com
- Taxman

THE ONLINE JOURNALS WHICH ARE SUBSCRIBED IN LIBRARY ARE:

SL.NO.	NAME OF JOURNALS	WEBSITE
1.	IASB Comprehensive Package	www.iasb.org.uk http://eifrs.isab.org
2.	Indiastat.com	www.indiastat.com

To win without risk is to triumph without glory.

3.	Chartered Accountant Practice Journal (CAPJ)	www.manupatralawreports.in
4.	Service Tax Journal (STJ)	www.manupatralawreports.in
5.	Delnet	www.delnet.nic.in
6.	Taxman	www.taxmann.net
7.	Global Journal of Flexible Systems Management	www.indianjournals.com (go to Publication list – Subscribed Publications only – go)
8.	Indian Journal of Finance & Research	www.indianjournals.com (go to Publication list – Subscribed Publications only – go)
9.	Journal of Management Research	www.indianjournals.com (go to Publication list – Subscribed Publications only – go)
10.	LBS Journal of Management & Research	www.indianjournals.com (go to Publication list – Subscribed Publications only – go)
12.	Management & Change	www.indianjournals.com (go to Publication list – Subscribed Publications only – go)
13.	Pranjana: The Journal of Management Awareness	www.indianjournals.com (go to Publication list – Subscribed Publications only – go)
14.	Intl. Journal of Regulation & Governance-	www.indianjournals.com (go to Publication list – Subscribed Publications only – go)
15.	Accounting & Business	www.accaglobal.com/Members/Publications
16.	British Accounting Review	www.sciencedirect.com/science/journal
17.	CFO Asia	www.cfoasia.com
18.	Harvard Business Review	www.hbr.org
19.	Insurance Times	www.insurancetimes.com.uk
20.	Global Reinsurance	www.globalreinsurance.com
21.	The Insurance Insider & Insider week	www.insuranceinsider.com
22.	Journal of Accountancy	www.aicpa.org
23.	R.B.I. Bulletin	www.bulletin.rbi.org.in
24.	In the Black (CPA Australia)	www.cpaustralia.com.au
25.	The Economist	www.economist.com
26.	Time	www.time.com
27.	Journal of Business Communication	http://JOB.sagepub.com

Weakness of attitude becomes weakness of character.

28.	Business Communication Quarterly	http://BCQ.sagepub.com
29.	Wista: Environment Audit	www.witts.org
30.	Journal of Accounting & Public Policy	www.sciencedirect.com
31.	Accountants Today (Malaysian Institute Of Accountants)	www.mia.org.my
32.	E-Jurix	www.ejurix.com
33.	Dalal Street Journal	www.dalalstreetjournal.com

THE ONLINE JOURNALS WHICH ARE SUBSCRIBED IN LIBRARY ARE :

SL.NO.	NAME OF JOURNALS
1.	IASB Comprehensive Package
2.	Indiastat.com
3.	Chartered Accountant Practice Journal (CAPJ)
4.	Service Tax Journal (STJ)
5.	Indlaw.com
5.	Delnet
6.	Taxman
7.	Global Journal of Flexible Systems Management
8.	Indian Journal of Finance & Research
9.	Journal of Management Research
10.	LBS Journal of Management & Research
12.	Management & Change
13.	Pranjana: The Journal of Management Awareness
14.	Intl. Journal of Regulation & Governance-
15.	Accounting & Business
16.	British Accounting Review
17.	CFO Asia
18.	Harvard Business Review
19.	Insurance Times
20.	Global Reinsurance
21.	The Insurance Insider & Insider week
22.	Journal of Accountancy
23.	R.B.I. Bulletin
24.	In the Black (CPA Australia)
25.	The Economist
26.	Time
27.	Journal of Business Communication
28.	Business Communication Quarterly
29.	Wista: Environment Audit
30.	Journal of Accounting & Public Policy
31.	Accountants Today (Malaysian Institute Of Accountants)
32.	E-Jurix
33.	Dalal Street Journal

Draft Regulations

[PUBLISHED IN GAZETTE OF INDIA (EXTRAORDINARY) PART III SECTION 4
DATED 5TH MAY, 2008]

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA NOTIFICATION

New Delhi, dated 5th May, 2008

No.1-CA(7)/116/2008. - The following draft of certain regulations further to amend the Chartered Accountants Regulations, 1988, which the Council of the Institute of Chartered Accountants of India proposes to make, is hereby published, as required by sub-section

(3) of section 30 of the Chartered Accountants Act, 1949 (38 of 1949) for the information of all persons likely to be affected thereby, and notice is hereby given that the said draft will be taken into consideration on or after the expiry of period of forty-five days from

An archer cannot hit the bull's-eye if he doesn't know where the target is.

the date on which the copies of the Gazette of India in which these draft regulations are published are made available to the public;

Any person desiring to make any objection or suggestion in respect of the said draft regulations, may forward the same for consideration by the Council within the said period to the Secretary, the Institute of Chartered Accountants of India, "ICAI Bhawan", Indraprastha Marg, New Delhi – 110 002;

Any objection or suggestion, which may be received from any person with respect to the said draft before the expiry of the said period will be taken into consideration by the said Council.

Draft Regulations

1. (1) These regulations may be called the Chartered Accountants (Amendment) Regulations, 2008.

(2) They shall come into force from the date of publication of final notification.

2. In the Chartered Accountants Regulations, 1988,-
(a) after regulation 3, the following regulation shall be inserted, namely:-

"3A. List of members — The list of members of the Institute as on the 1st day of April each year published, under sub-section (3) of section 19, may be sent to any member, on his request and on his making payment at the following rates, -

- (i) Western Region – Rupees 500/- per copy
- (ii) Southern Region – Rupees 500/- per copy
- (iii) Eastern Region – Rupees 300/- per copy
- (iv) Central Region – Rupees 400/- per copy
- (v) Northern Region – Rupees 500/- per copy
- (vi) All India – Rupees 750/- per copy

(b) in regulation 5, in sub-regulation (1),

(i) in clause (a), for the words, "the fee prescribed in these regulations", the words, "such fee as may be determined by the Council under sub-section (3) of section 4", shall be substituted.

(ii) in clause (b), for the words, "the prescribed entrance fee", the words, "such fee as may be determined by the Council under sub-section (3) of section 5" shall be substituted:

Provided that an associate on being admitted as a fellow in the course of the year shall pay, for that year, only the differential amount."

(c) for regulation 6, the following regulation shall be substituted, namely:-

"6. Fees

(1) (a) The annual membership fee shall be-

come due on the first day of April in each year.

(b) Every member shall pay such annual membership fee as may be determined by the Council under sub-section (4) of section 19.

(2) (a) The annual fee for certificate of practice shall become due on the first day of April in each year.

(b) Every member in practice shall pay such annual certificate of practice fee, as may be determined by the Council under sub-section (2) of section 6.

(3) A member seeking restoration of his membership shall pay, such additional fee, as may be determined by the Council under sub-section (3) of section 20."

(d) in regulation 10, for sub-regulations (1) and (2), the following shall be substituted, namely:-

"(1) A certificate of practice issued under sub-section (1) of section 6 shall be liable for cancellation, if -

- (i) the name of the holder of the certificate is removed from the Register under sub-sections (1) and (2) of section 20; or
- (ii) the Council is satisfied, after giving an opportunity of being heard to the person concerned, that such certificate was issued on the basis of incorrect, misleading or false information, or by mistake or inadvertence; or
- (iii) a member has ceased to practise; or
- (iv) a member has not paid annual fee for certificate of practice till 30th day of September of the relevant year.

(2) The cancellation of a certificate shall be effective: -

- (a) in a case falling under clause (i) of sub-regulation (1), on the date on which and during the period for which the name of the holder of the certificate was removed from the Register;
- (b) in a case falling under clause (iv) of sub-regulation (1), from the 15th day following the date of issue of notice by the Secretary on or after the 1st day of October; and
- (c) in any other case from such date and for such period, as may be decided by the Council."

(e) for regulation 11, the following regulation shall be substituted, namely: -

"11. Restoration of certificate of practice

The Council may, on an application made in the approved Form and on payment of such fee, as may be determined by the Council under sub-section (3) of section 20, restore the

Stop thinking in terms of limitations and start thinking in terms of possibilities.

certificate of practice with effect from the date on which it was cancelled, to a member whose certificate has been cancelled due to non-payment of the annual fee for the certificate of practice and whose application, complete in all respects, together with the fee, is received by the Secretary before the expiry of the relevant year.”;

- (f) in regulations 12, 13, 14, 15, 16 and 17, after the headings, the following words in brackets shall be inserted, namely:-

“[Applicable to a complaint or information pending before the Council or any inquiry initiated by the Disciplinary Committee or any reference or appeal made to a High Court prior to 17.11.2006]”;

- (g) after regulation 17, the following regulation shall be inserted, namely:-

“17A. Fee and procedure for investigation of a complaint or information to be followed by the Director (Discipline), Disciplinary Directorate and procedure for inquiry by the Disciplinary Committee.

[Applicable to a complaint or information received on or after 17.11.2006]

- (1) Every complaint, other than a complaint filed by or on behalf of the Central Government or any State Government or any statutory authority, shall be accompanied by a fee of Rs.2,500/-;
- (2) Each such complaint or information shall be dealt with in accordance with the procedure specified in the Chartered Accountants (Procedure of Investigations of Professional and Other Misconduct and Conduct of Cases) Rules, 2007.”

- (h) for regulation 19, the following regulation shall be substituted, namely:-

“19. Restoration to membership

(1) The Council may, on an application in the appropriate Form, received in this behalf from a member whose name has been removed from the Register under clause (c) of sub-section (1) of section 20, restore his name, if he is otherwise eligible to such membership, on his paying the arrears of annual membership fee, entrance fee and additional fee determined by the Council under the Act.

(2) The restoration under sub-regulation (1) shall be with effect from the date on which the application and fee are received:

Provided that where such an application for restoration, complete in all respects, is received within the same year in which the name was

removed, the Council may restore the name on his paying the annual membership fee due for that year, entrance fee and the additional fee for restoration, with effect from the date on which it was removed from the Register:

Provided further that the restoration of a member’s name which was removed under the orders of the Board of Discipline or the Disciplinary Committee or the Appellate Authority or the High Court shall be effected only in accordance with such orders.”

- (i) after regulation 53, the following regulations shall be inserted, namely:-

“53A. Other professional bodies

(1) For the purposes of Items (2), (3) and (5) of Part I of the First Schedule to the Act, a person has to be a member of any of the following professional bodies, namely: -

- (a) The Institute of Company Secretaries of India established under the Companies Act, 1980 (No.56 of 1980);
- (b) The Institute of Cost and Works Accountants of India established under the Cost and Works Accountants Act, 1959 (No.23 of 1959);
- (c) Bar Council of India established under the Advocates Act, 1961 (No.25 of 1961);
- (d) The Indian Institute of Architects established under the Architects Act, 1972 (No.20 of 1972);
- (e) The Institute of Actuaries of India established under the Actuaries Act, 2006 (No.35 of 2006).

(2) The membership of the professional bodies or institutions outside India whose qualifications relating to accountancy are recognised by the Council under sub-section (2) of section 29 shall also be taken into consideration for the purposes of Items (2), (3) and (5) of the Part I of the First Schedule to the Act.

(3) For the purposes of Items (2), (3), (4) and (5) of Part I of the First Schedule to the Act, the following shall be the persons qualified in India, namely: -

- (i) Company Secretary within the meaning of the Company Secretaries Act, 1980 (No.56 of 1980);
- (ii) Cost Accountant within the meaning of the Cost and Works Accountants Act, 1959 (No.23 of 1959);
- (iii) Actuary within the meaning of the Actuaries Act, 2006 (No.35 of 2006);
- (iv) Bachelor in Engineering from a University established by law or an Institution recognised by law;

Nothing is too high for a man to reach, but he must climb with care and confidence.

- (v) Bachelor in Technology from a University established by law or an institution recognised by law;
- (vi) Bachelor in Architecture from a University established by law or an institution recognised by law;
- (vii) Bachelor in Law from a University established by law or an institution recognised by law;
- (viii) Master in Business Administration from Universities established by law or technical institutions recognised by All India Council for Technical Education.

53B. Membership of professional bodies for partnership

(1) For the purposes of entering into partnership under Item (4) of Part I of the First Schedule to the Act, a person shall be a member of any of the following professional bodies, namely: -

- (a) Company Secretary, member, The Institute of Company Secretaries of India, established under the Company Secretaries Act, 1980 (No.56 of 1980);
- (b) Cost Accountant, member, The Institute of Cost and Works Accountants of India established under the Cost and Works Accountants Act, 1959 (No.23 of 1959);
- (c) Advocate, member, Bar Council of India established under the Advocates Act, 1961 (No.25 of 1961);
- (d) Engineer, member, The Institution of Engineers, or Engineering from a University established by law or an institution recognised by law;
- (e) Architect, member, The Indian Institute of Architects established under the Architects Act, 1972 (No.20 of 1972);
- (f) Actuary, member, The Institute of Actuaries of India, established under the Actuaries Act, 2006 (No.35 of 2006).

(2) Professional bodies or institutions outside India whose qualifications relating to accountancy are recognised by the Council under sub-section (2) of section 29 of the Act."

- (j) Regulations 82 to 126 shall be omitted;
- (k) in regulation 137, in sub-regulation (9), for the words "such other persons belonging to the region as may be co-opted by the Regional Council, not exceeding two-thirds of the members of the committee, so however, that at least one-half of such co-opted persons shall be members of the Institute" the words "such other members belonging to the region as may be co-opted by the Regional Council,

not exceeding one-third of the members elected to the committee as above" shall be substituted.

- (l) After regulation 174, the following shall be inserted, namely: -

"174A. Committees of the Council

The Standing Committees constituted by the Council under section 17 shall at all time function under the control, direction and supervision of the Council."

- (m) for regulation 175, the following regulation shall be substituted, namely :-

"175. Executive Committee

- (1) The Executive Committee shall perform the following functions, namely: —

- (a) enrolment of members with or without certificate of practice, admission of fellows, removal and restoration of names of members, cancellation of certificate of practice, prosecution of members on the findings of the Council, granting exemption to chartered accountants in practice or firms of such chartered accountants from the operation of sub-section (1) of section 27 and publication of the list of members;
- (b) grant of permission to a chartered accountant in practice to engage in any business or occupation other than the profession of accountancy in accordance with, and subject to, the restrictions specified in this behalf by the Council;
- (c) condone the delay in supplying requisite information under regulation 190;
- (d) maintenance of the Register of articled assistants and Register of audit assistants and all other statutory registers which are prescribed by the Act or these regulations;
- (e) custody of the property, assets and funds of the Institute;
- (f) maintenance of office of the Council and for this purpose the Executive Committee may employ, suspend, discharge or re-employ the necessary staff on such terms and conditions as it may deem fit;
- (g) according approval, on recommendation of Finance Committee, to the likely expenditure upto twenty percent in excess of the estimates previously sanctioned by the Council in the respective heads of the annual budget;

Provided that where the Executive Committee does not agree with the recommendation of the Finance Committee, the matter shall be decided by the Council.

Aim for the top. There is plenty of room there. There are so few at the top it is almost lonely there.

- (2) Except as otherwise provided by these regulations, the Executive Committee shall exercise all the functions and powers of the Council in relation to articled assistants and audit assistants, except those contained in regulations 44, 67 and 80.
- (3) The Council shall have the power to review any decision taken by the Executive Committee in the performance of the functions assigned to it."
- (n) after regulation 176, the following regulation shall be inserted, namely:-
"176A. Finance Committee
- (1) The Finance Committee shall control, implement and supervise the activities related with and incidental to the following areas, namely:-
- maintenance of true and correct accounts of all the receipts and payments on behalf of the Council and the matters in respect of which such receipts and payments take place and of all the property, securities, debts, funds and liabilities of the Institute;
 - formulation of annual budget of the Institute and presenting it to the Council for approval, after obtaining the recommendation of the Executive Committee;
 - control of funds of the Institute;
 - investment of the funds of the Institute in securities and to vary such investments from time to time subject to the guidelines approved by the Council;
 - disbursements from the funds of the Institute for expenditure, both revenue and capital, based on the estimates previously sanctioned by the Council:
Provided that expenditure in excess of the estimates previously sanctioned by the Council may be incurred with the recommendation of the Executive Committee, wherever considered expedient, but such excess expenditure shall be brought to the notice of the Council at its next meeting;
 - making recommendation to the Executive Committee for sanction of likely expenditure upto twenty percent in excess of the estimates previously sanctioned by the Council for the respective heads of the annual budget.
- (2) The Council shall have the power to review any decision taken by the Finance Committee in the performance of the functions assigned to it."
- (o) for regulation 194, the following regulation shall be substituted, namely:-
"194. Maintenance of accounts
- (1) It shall be the duty of the Secretary to cause to maintain proper books of accounts with respect to-
- all sums of money received and expended by the Institute and the matters in respect of which the receipt and expenditure takes place;
 - all sales and purchases of goods;
 - all the assets and liabilities of the Institute.
- (2) The annual accounts of the Council shall be prepared for every year. Such annual accounts shall comprise of the Balance Sheet of the Institute, Income and Expenditure Account of the Institute comprising the surplus or deficit of the Institute for that year, and Cash Flow Statement for that year."
- (p) for regulation 197, the following regulation shall be substituted, namely:-
"197. Comparison of actual income and expenditure with budget estimates
- (1) The Council shall approve the budget prior to the commencement of each financial year indicating expenditure proposed to be incurred and anticipated revenues for the forthcoming year. Such a budget apart from the other things shall separately distinguish capital items and the revenue items.
- (2) The budget for the capital items shall provide proposed expenditure apart from the other items on land, building, capital equipments, books and library.
- (3) The budget for revenue items should provide anticipated income and proposed expenditure for the forthcoming year in relation to, apart from the other items, in respect of distance education, examination, services to members and salary and establishment.
- (4) The budget so approved may be revised during the year to incorporate the expected changes.
- (5) The auditors of the Council shall also compare the actual income and expenditure with the budget estimates approved by the Council and submit a report to the Council on the material departures."

Sd/-
Dr. Ashok Haldia
Secretary

Note: The principal regulations were published in the Gazette of India, Extraordinary, dated the 1st June 1988 vide number 1-CA (7)/134/88 dated 1st June 1988 and subsequently amended by the following numbers: -

Energy and persistence conquer all things.

- (i) Notification No.1-CA (7)/1/89 published in the Gazette of India dated 7th October, 1989
- (ii) Notification No.1-CA (7)/10/90 published in the Gazette of India dated 19th January, 1991
- (iii) Notification No.1-CA (7)/11/90 published in the Gazette of India dated 19th January, 1991
- (iv) Notification No.1-CA (7)/12/91 published in the Gazette of India dated 23rd February, 1991
- (v) Notification No.1-CA (7)/13/90 published in the Gazette of India dated 2nd February, 1991
- (vi) Notification No.1-CA (7)/19/92 published in the Gazette of India, dated 7th March 1992.
- (vii) Notification No.1-CA (7)/28/95 published in the Gazette of India dated 1st September, 1995
- (viii) Notification No.1-CA (7)/30/95 published in the Gazette of India, Extraordinary dated 13th March, 1996
- (ix) Notification No.1-CA (7)/31/97 published in the Gazette of India, dated 16th August, 1997
- (x) Notification No.1-CA (7)/44/99 published in the Gazette of India dated 26th February, 2000
- (xi) Notification No.1-CA (7)/45/99 published in the Gazette of India, dated 26th February 2000.
- (xii) Notification No.1-CA (7)/51/2000 published in the Gazette of India, Extraordinary, dated 17th August 2001.
- (xiii) Notification No.1-CA (7)/59/2001 published in the Gazette of India, Extraordinary dated 28th September, 2001
- (xiv) Notification No.1-CA (7)/64/2002 published in the Gazette of India, Extraordinary dated 31st March, 2003
- (xv) Notification No.1-CA (7)/64A/2003 published in the Gazette of India, Extraordinary dated 4th December, 2003
- (xvi) Notification No.1-CA (7)/83/2005 published in the Gazette of India, Extraordinary dated 28th July, 2005
- (xvii) Notification No.1-CA (7)/84/2005 published in the Gazette of India, weekly dated 17th June, 2006
- (xviii) Notification No.1-CA (7)/92/2006 published in the Gazette of India, Extraordinary dated 13th September, 2006
- (xix) Notification No.1-CA (7)/102/2007(E) published in the Gazette of India, Extraordinary dated 17th August, 2007

Committee on Information Technology, ICAI

ERP Courses on SAP FICO, Oracle 11i Financials & Microsoft Dynamics NAV

The Committee has started offering ERP Courses for members and students (final/article ship completed) of the Institute to enable them to offer value added services in the field of ERP Consulting as Functional Consultants in the finance domain considering their rich experience in accounting/finance/business/legal requirements, which are in increasing demand today. These courses are also suitable for Members in Industry where ERP applications are implemented/being implemented.

This ERP Initiative includes, training programmes on (a) **SAP FICO**, (b) **Oracle 11i Financials** and (c) **Microsoft NAV Dynamics (Pune-April 19, Kolkatta-May 03, Jaipur-April 26)**. These courses are being offered through OEM vendors giving twin benefits of convenient timing and discounted course fees. Further details are available on the Institute website at www.icaai.org under Members ⇒ Courses.

Please contact 011-30210619/621 or erp@icaai.org/secyitc@icaai.org for further details/clarifications/registration.

Forthcoming Practical Workshops

City	Workshop Theme	Date
Kolkata	Using MS-Excel as an Audit Tool	June 01
Chennai	Demo of Penetration tool	May 24
Mumbai	SOX IT Audit May 23	May 23
Delhi	Using MS-Excel as an Audit Tool	June 01

Further details, workshop brochures & registration form are available at www.icaai.org under events. Workshop registration is on first-come-first-served-basis on receipt of duly filled in form with workshop fee. Please contact 011-30210619/621 or isadelhi@icaai.org for further details/assistance/registration.

People may fail many times, but they become failures only when they begin to blame someone else.

CABF—A PROTOCOL FOR PROTECTION

Together, we have a bond in common....

- our profession,
- our generosity,
- our compassion



INSURE WITH
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AND
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The Chartered Accountant's Benevolent Fund (CABF)

P.O. Box 7100, Indraprastha Marg, New Delhi – 110 002 E-mail: cabf@icai.org

ICAI'S INTIATIVE FOR MEMBER'S WELFARE AND SECURITY

-CABF is set up under aegis of ICAI and cares for members and their family

- CABF is the one uniting factor that calls CAs to come together in seamless bond of belongingness.

- CABF brings pride to the members of the ICAI that we key players of an accounting profession contributing to the world of business & industry....are also trustworthy for the welfare of CA fraternity and society at large.

- Today, when we see some families of our fraternity in distress, isn't it our moral duty to step in and help in our own small way? Here CABF and you play a major role.

-The Chartered Accountant's Benevolent Fund has been established just for this very cause.

- Let's make sure that we take this movement forward with conviction, commitment and confidence.

CABF in the year 2007-08 has granted a sum of Rs. 1,46,10,000/- to the applicants, which is substantial, help to them in dire need of sustenance.

CABF IS. ...OF YOU.... BY YOU...FOR YOU!

PROTECTION

CABF extends financial assistance to the member & dependents of deceased member in acute distress. CABF supports you, your family and fraternity.

INSURANCE

CABF also facilitates Group Insurance for Members and Spouse through LIC at very attractive one time premium providing global life & accidental cover for 3 years.

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YOUR SMALL CONTRIBUTION WILL BRING PROTECTION TO MORE NUMBER OF NECESSITIOUS PERSON!

"After the death of my husband, who was a member of the Institute, I needed desperate help and there was no source I could think of. One member advised me to write to CABF. It was a great relief to received assistance from the fund"

-widow of a deceased member

CABF needs your support!
I AM PROUD.
I am Life Member by contributing
Rs.1, 000/-
&
I also contribute
Voluntarily to CABF
every year!

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Keep in mind that neither success nor failure is ever final.

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Ordering information:

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Postal Charges:

By Courier	: Rs. 45/-
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(Pages: 118+10 initial pages+4 cover pages)

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Significant features of the Implementation Guide to SQC 1 are:

- Strengthens the technical knowledge enshrined in the SQC 1* “Quality Control for Firms that Perform Audits & Reviews of Historical Financial Information, and other Assurance & Related Services Engagements” to pave way for easier implementation and greater acceptance.
- Provides a set of illustrative policies that an audit firm may adopt, with or without modification.
- Assists the firms to tailor their Quality Control (QC) policies to make them relevant according to their size, composition, number and nature of employed or contracted professionals, services rendered, kind of clientele, etc.
- Illustrative forms, checklists and templates such as, annual firm personnel independence confirmation, model independence policies, client/engagement acceptance and continuance form, engagement planning memorandum template, engagement summary memorandum template, engage-

* Standard on Quality Control (SQC) 1 is recommendatory from April 1, 2008 and mandatory from April 1, 2009. SQC 1 contains extensive requirements in relation to establishment and maintenance of a system of quality control in the audit firms as well as even for sole practitioners.

All you need in life is ignorance and confidence, and then success is sure.

ment QC review report template, Firm QC inspection checklist makes the compliance easier.

- The Guide comes with a CD of the entire Guide, including model working papers to ensure ease of reference and reusability.

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The publication can be obtained from the sales counter at the Regional offices or at the Head office of the Institute. Copies can also be obtained by post. To order by post, send a demand draft for the amount of price of the publication (add the charges indicated below for the desired mode of delivery) in favour of **“The Secretary, The Institute of Chartered Accountants of India, New Delhi”**, payable at New Delhi, to the Postal Sales Department, The Institute of Chartered Accountants of India, ICAI Bhawan, C-1, Sector-1, NOIDA-201301(U.P.)

Postal Charges:

By Courier	: Rs.25/-
By Registered Post (All over India)	: Rs.48/-
By Unregistered Post (All over India)	: Rs.31/-

INVITATION TO JOIN PANEL OF FACULTIES

The Institute is in the process of strengthening its panel of faculties with professionals/academicians/resource persons for CA CPT, PCC and Final coaching classes (through TV Channel/Radio Channel, Personal Coaching). A list of various subject papers is given below:

Common Proficiency Test (CPT) Examination	Professional Competence Course (PCC) Examination	Final Examination
	Group- I	Group- I
Paper 1: Fundamentals of Accounting	Paper 1: Advanced Accounting	Paper 1: Advanced Accounting
Mercantile Laws	Paper 2: Auditing and Assurance	Paper 2: Management Accounting and Financial Analysis
Paper 2: General Economics Quantitative Aptitude	Paper 3: Law, Ethics and Communication Part I: Law, Business Laws, Company Law Part II: Business Ethics Part III: Business Communication	Paper 3: Advanced Auditing
		Paper 4: Corporate Laws and Secretarial Practice
	Group II	Group II
	Paper 4: Cost Accounting and Financial Management Part I: Cost Accounting Part II: Financial Management	Paper 5: Cost Management

The softest things in the world overcome the hardest things in the world.

	Paper 5: Taxation Part I: Income-tax Part II: Service Tax and VAT	Paper 6: Management Information and Control Systems
	Paper 6: Information Technology & Strategic Management Section A: Information Technology Section B: Strategic Management	Paper 7: Direct Taxes
		Paper 8: Indirect Taxes

Persons who take classes for CA Students in the ICAI limbs; or/and accredited educational institutions are invited to join the panel of faculties for the respective papers which they teach.

Persons who have the requisite inclination and who can spare time may send in the Empanelment Form duly filled in to the CA.(Dr.) P.C.Tulsian, Additional Director of Studies, The Institute of Chartered Accountants of India, ICAI Bhawan, P.B. No. 7100, Indraprastha Marg, New Delhi-110 002. The form may be downloaded from the Institute's Website www.icaai.org and sent through E-mail: bosgyandarshan@icaai.org.



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Exclusively for **Chartered Accountancy students** and also for the **Qualified Chartered Accountants** in collaboration with
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This is an innovative and flexible programme designed exclusively for the Chartered Accountancy 1st stage students. This programme consists of courses of CPT, PCC, completion of Articleship of Chartered Accountancy and 52 credits of NSOU courses. Students can simultaneously study B.Com. along with Chartered Accountancy course. On completing Chartered Accountancy 1st stage, students get exemption to 9 papers in B.Com (Hons.).

Eligibility for Admission: (i) 10+2 or its equivalent, (ii) Passed Common Proficiency Test of ICAI; and (iii) Registration in Professional Competency Course of ICAI (OR) already passed Professional Competency Course of ICAI or a Qualified Chartered Accountants.

Duration: 3 years.

Medium of Instruction: Bengali and English

Fee: Rs.5090/- consolidated

The Prospectus is available at NSOU Study Centres as well as at the EIRC (ICAI) counter from **31 May 2008**. The application form can be submitted to the Study Centres concerned along with requisite fee (to be

paid by way of Demand Draft/cash) and all other enclosures as per CHECKLIST on or before the last date i.e. **22 June 2008**. The Prospectus can be obtained from the following centres in person on payment of Rs.50/- in cash:

i) Eastern India Regional Council (EIRC), ICAI Bhavan, 7, Russell Street, Kolkata-17., ii) Maharaja Manindra Chandra College, 20, Ramkanto Bose Street, Kolkata-3, iii) Sammilani College. Baghajatin, Kolkata-75, iv) Behala College, Parnasree, Kolkata-60, v) Shibpur D.B College, 412/1, G.T. Road, Howrah-2, vi) Surendranath (Evn.) College, 78, APC Road, Kolkata-9, vii) Burdwan Raj College, Aftab House, Bardhaman, viii) Barasat Govt. College, Rameshpalli, Barasat, North 24Parganas, ix) Raja N.L. Khan College, Paschim Medinipur, x) New Alipur College, Block-L, Nerw Alipur, Kolkata-53, xi) Goenka College of Commerce and Business Administration, 210, BB. Ganguly Street, Kolkata-12, and xii) Gurudas College of Commerce, 33C/1, Biplabi Barin Ghosh Sarani, Kolklata-67.

The filled in application form can be submitted at the centres from (ii) to (xii) from **31 May 2008 to 22 June 2008**.

Preconceived notions are the locks on the door to wisdom.

INVITATION FOR RESEARCH PROPOSALS

Research Committee invites applications for Research Projects from members and others for carrying out research in the field of accounting and other affiliated fields for e.g. accounting in coal and mining industry, implementation guidance on AS-17 for diversified companies, accounting for retail store chains. The Committee would provide financial support for the approved Research Projects.

The Eligibility Criteria

(a) The applicant must be a member of the Institute of Chartered Accountants of India with a research aptitude having at least 10 years of post-qualification experience either in the practice of the profession or as an employee with a reputed manufacturing/service organisation; or

(b) The applicant must be holding a post-graduate degree from a recognised University or an institute of national repute and must have at least 10 years research and/or teaching experience;

Applications from persons having an experience less than as stated above may also be considered on the basis of merit.

The Evaluation Criteria

Only those research proposals will be accepted that result in formulation of guidance material in the form of Technical Guide, Studies, Monographs for the members of the Institute in accounting and allied areas, such as the following:

- the issues on which no accounting standards are available or
- the issues that may arise in the implementation of accounting standards and other

pronouncements in the industry-specific situations.

Duration

The duration of research project should not exceed 3 months from the date of the approval of the research proposal unless a longer period is otherwise justified.

Documents to be submitted with the research proposal

The proposal should be accompanied by a

- Complete bio-data including experience in the relevant field of interest.
- Synopsis of the project explicitly specifying the objective, scope and issues that would be addressed in the final proposed document. It should also contain a justification for the proposal and the detailed chapter plan.

The proposal should also indicate the estimated expenditure and expected honorarium for this purpose. The amounts in this regard would be remitted on the final acceptance of the draft by the Research Committee.

Research proposals complete in all respects should be sent by July 31, 2008 to the Secretary, Research Committee, at the following address:

The Institute of Chartered Accountants of India,
ICAI Bhawan, Post Box No.7100,
Indraprastha Marg,
New Delhi - 110002
E-mail: research@icai.org
Telephone: 011- 30110458



CABF-Group Insurance Scheme

ICAI under aegis of CABF has made an arrangement with Life Insurance Corporation of India facilitating a Special Group Insurance Scheme for the members & their spouse. The Insurance Scheme covers accidental death benefits in addition to the life cover as normal benefit. The Scheme provides life coverage for sum of Rs.10,00,000/- for Member & Rs. 5,00,000/- for spouse as well. The Scheme also facilitates Rs.20,00,000/- for member and Rs.10,00,000/- for spouse as accidental

death benefit. This insurance scheme is uniquely designed only for the members of the Institute to avail insurance benefits on payment of one time competitive premium and coverage for three years. Members may further renew the insurance scheme after three years. The details of Group Insurance Scheme and application form are available on Institute's website www.icai.org and also on CABF Portal www.icaicabf.org. The Scheme is open throughout the year and members may join this Scheme from the first day of the month. A large number of members have already joined this scheme. CABF makes an appeal to the members who have not joined to apply immediately and ensure self & family. For further information e-mail at monika.gupta@icai.org.

Think like a man of action, act like a man of thought.

Information Systems Audit (ISA) Course Assessment Test
TO BE PUBLISHED IN PART III SECTION 4 OF THE GAZETTE
OF INDIA NOTIFICATION

12th May, 2008

No.13-CA (EXAM)/ISA/J/2008: - In pursuance of Rule 7 of Schedule 'F' to Regulation 204 of the Chartered Accountants Regulations, 1988 (as amended vide Notification No. 1-CA (7)/59/2001 dated 28th September 2001), the Council of the Institute of Chartered Accountants of India is pleased to notify that the Information Systems Audit (ISA) Course Assessment Test will be held on **21st June, 2008 from 8.00 am to 12.00 noon** at the following centres provided that sufficient number of candidates offer themselves to appear from each centre as detailed below.

1	AHMEDABAD	13	KANPUR
2	AJMER	14	KOLKATA
3	BANGALORE	15	LUCKNOW
4	CHANDIGARH	16	LUDHIANA
5	CHENNAI	17	MUMBAI
6	DELHI/NEW DELHI	18	NAGPUR
7	ERNAKULAM	19	NASHIK
8	GHAZIABAD	20	PATNA
9	HYDERABAD	21	PUNE
10	INDORE	22	RAJKOT
11	JABALPUR	23	RANCHI
12	JAIPUR	24	SURAT

The Council reserves the right to withdraw any centre at any stage without assigning any reason. The above Test is open only to eligible Members of the Institute who are already registered with the

Institute for the said course. The fees payable for the above Assessment Test is Rs.1000/-.

Payment of fees for the Assessment Test should be made only by Demand Draft. The Demand Draft may be of any Scheduled Bank and should be drawn in favour of "The Secretary, The Institute of Chartered Accountants of India, payable at New Delhi" only. Application together with the prescribed fee be sent so as to reach the Senior Joint Secretary (Exams) at New Delhi on or before **3rd June 2008**.

Applications for admission to the Assessment Test is required to be made in the prescribed form which may be obtained from the Senior Joint Secretary (Exams), The Institute of Chartered Accountants of India, ICAI Bhawan, Indraprastha Marg, New Delhi – 110 002 on payment of Rs. 25/- per application form. **The forms are also available in the Regional and Branch Offices of the Institute and can be obtained upon cash payment on or from 13th May 2008. Alternatively, the format of application form can be downloaded from the website of the Institute viz. www.icai.org and the cost of the application form of Rs.25/- can be added to the Assessment Test fee of Rs.1000/- and the Demand Draft for Rs.1025/- has to be sent. The last date for receipt of duly filled in application forms is 3rd June 2008.** The application together with the prescribed fee should be sent by Speed Post/Registered Post to the Senior Joint Secretary (Exams.), New Delhi. The applications received after 3rd June 2008 will not be entertained under any circumstances.

(G. SOMASEKHAR)
 SENIOR JOINT SECRETARY (EXAMS.)

In Dreams Begin Responsibilities.

Enhancing Audit Quality

As you are aware in the last issue we have published certain observations of the Reviewers noticed during the conduct of Peer Review exercise for the information of the members and to empower them in their day-to-day work and thus finally enhance the overall image of the profession. Continuing the observations earlier published, given below are some more observations relating to Technical Standards.

AAS 6 (Risk Assessment and Internal Control)

- While making the review and evaluation of internal control system, the Audit Risk and its components not measured. Hence, the weaknesses noticed in the internal control system, which requires improvement.
- Assessment of audit risk and its components not done.
- No test of controls to obtain audit evidence to support any assessment of control risk.
- Review and evaluation of system of internal controls not carried out.
- PU has not been doing any risk analysis with regard to their audit function.
- PU does not conduct test of controls to obtain audit evidence to support any assessment of control risk.
- PU does not have any policy to consider and assess inherent level of control risk in determining the nature, timing and extent of substantive procedures required to reduce audit risk, to an acceptable low level.
- Written statements in questionnaire/flow chart form were not available regarding internal control system.
- Review and evaluation of system of internal control in large audits not documented.
- Review and evaluation of risk assessment of clients' business in large audit not evaluated.

AAS 7 (Relying upon the work of an Internal Auditor)

- Review and reliance placed on

work of an internal auditor was not documented.

AAS 8 (Audit Planning)

- No audit programme is prepared for conducting audit or PUs do not always follow requirements of written audit programme.
- Audit plans not developed or Audit plan before commencing the audit is not prepared at all.
- Scope of audit not found to be elaborate.
- An audit plan for each audit, giving time schedules is not available.

AAS 11 (Representation by Management)

- PU does not have any system to obtain written representation from the management on matters material to financial information.
- It was noticed in number of instances that the representation from the management was not received in spite of the fact that sufficient appropriate audit evidence did not exist.
- The practice of obtaining representation letters is not noticed and confirmation regarding physical stock, valuation of stock, bank balances, etc. not obtained.

AAS 14 (Analytical Procedures)

- No performance of analytical review.
- PU does not have any system of performing analytical review.
- Non-compliance with Analytical Procedures.
- Working of various ratios to find out the abnormal items not done.

(To be continued in the next issue.....)

Japanese SOX - An Emerging Opportunity For CAs



For a Chartered Accountant, it is important to know some protocols to enter Japanese market. It takes a long time to build confidence among Japanese clients. Communication and pre planning is critical. A Japanese company would like to know beforehand the timelines. Once committed, it is very difficult to convince them about the delay.

The same law as US-SOX was established by Japanese government in June 2006. The law is so-called J-SOX (Japanese SOX; Financial Products Dealings Act of 2006). It will be in force for all the fiscal years starting from April 1, 2008. In order to protect general investors, it aims at preventing accounting frauds by public companies. Companies listed in Japan and operating in India as subsidiary companies will need to Report the J-SOX Compliance to the main Companies in Japan. A Chartered Accountant is the best suited to help in the compliance of J-SOX.



— CA. Eish Taneja and CA. Parveen Kumar

(The authors are member of the Institute. They can be reached at eish.taneja@yahoo.com)

Internal Controls and Corporate Governance are the buzz words today. Post Enron and WorldCom in America, regulators are trying their best to sustain investor's confidence in the corporate world. Sarbanes Oxley's Act is one of the results of such a thinking process. All over the world, such steps are being taken to regulate public companies to safeguard the interest of stakeholders. In London, a combined code is working in the same direction while in India Clause 49 is steering the boat.

In Japan too the problematic disclosure of false information in financial statements/Reports was a major concern in the past. Japan too has been hit by scandals similar to Enron and WorldCom. The former executives of Livedoor, which is a Japanese major internet portal service provider like Yahoo Japan, were arrested on charge of fraud. Regulators in Japan, though culturally different from Western and European countries, are equally concerned about safeguarding investors' interest and boosting their confidence. Towards the end of 2004, the increasing distrust about Japan's securities market forced the wholesale review of Japan's disclosure system. Consequently, in December 2004, the Financial System Council of the Financial Services Agency (FSA) recommended that assessment and verification of internal controls related to financial reporting be made compulsory in order to guarantee the credibility of the disclosure system.

After that, the Internal Control Committee of the Business Accounting Council, following the rules for establishing standards for internal controls, announced the fundamental principles for upgraded standards the first year, and put together a written proposal containing practice standards the second year.

The same law as US-SOX was established by Japanese government in June 2006. The law is so-called J-SOX (Japanese SOX; Financial Products Dealings Act of 2006). It will be in force for all the

For a Chartered Accountant, it is important to know some protocols to enter Japanese market. It takes a long time to build confidence among Japanese clients. Communication and pre planning is critical. A Japanese company would like to know beforehand the timelines. Once committed, it is very difficult to convince them about the delay.

fiscal years starting from April 1, 2008. In order to protect general investors, it aims at preventing accounting frauds by public companies. The regulation, which applies to all listed companies in Japan, calls for the establishment of internal control rules to ensure proper disclosures and reporting on internal accounting procedures. It will also require company management to verify that these rules are being complied with, and for auditing firms to conduct the relevant audits.

Milestones

Following dates are important milestones

a) **December 22, 2005**

Schedule Report of the First Subcommittee of the Financial System Council titled as "Legislation for 'the Investment Services Law (provisional title)'".

b) **March 10, 2006**

Cabinet decision on the following two bills for legislating the "Financial Instruments and Exchange Law".

- i) Bill for amending the Securities and Exchange Law and other financial laws.
- ii) Bill for abolishing and amending the related laws to implement the above bill for amending the Securities and Exchange Law and other financial laws.

c) **March 13, 2006**

Submission of the bills to the Diet (Japanese Legislature).

d) **June 7, 2006**

Passage of the bills in the Diet.

e) **June 14, 2006**

Promulgation of the legislations.

f) **April, 2008**

J-SOX Mandatory requirement for Listed Companies.

Compliance Requirements

The US Public Company Accounting Reform and Investor Protection Act of 2002 ('SOX Act') consists of 11 titles containing a total of 69 sections. The stipulations in Section 404 of Title IV-US SOX are similar in content to the provisions and stipulations contained in both Article 24, Section 4, Paragraph 4 of Japan's Financial Instruments and Exchange Law and Article 193, Section 2, Paragraph 2 of Japan's Securities and Exchange Law. These legal provisions are sometimes referred to as the Japanese version of the SOX Act.

Besides other important issues, as per section 24-4-4 of the Financial Service Act, 2006 of Japan, all the listed corporate will have to present a report on Internal Controls as part of Annual Financial Reports for the fiscal years starting from April 1, 2008.

Difference in Adoption of US-SOX & J-SOX

Both US Sox and J Sox have focus on documentation and putting responsibility on the management, yet there are some key differences in the Countries and the way it has to be adopted in both places.

- a) The biggest difference between the two countries lies in the methodology employed by outside auditors. In the United States, the main method used is direct reporting, whereby accountants go to company's offices to audit where the risks lie and verify whether the checking function is working or not. In Japan, on the other hand, auditors mainly conduct indirect inspections.
- b) Japan has not adopted the type of direct reporting approach used in the United States, because it is assumed that this is already being implemented during inspections conducted by in-house auditors which are installed in corporate structure in Japan.



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- c) The major burden for SOX compliance is documentation of all of the activities in a company. It results in additional cost of more than 3-5 million dollars. If J-SOX follows US-SOX as it is, it must arouse devaluation of all Japanese public companies and elevate the hurdle of IPO. Therefore, not only executives of Japanese public companies but also some of the Committee members insist that it should be much simpler than US-SOX.
- d) Liquidation of employees in Japanese economy is less than that of the US. Business process and business rules are handed down from person to person. They are not clearly documented in detail. There are very few manuals/SOP's in Japan unlike in US where the Focus on Documentation is much higher.

Framework

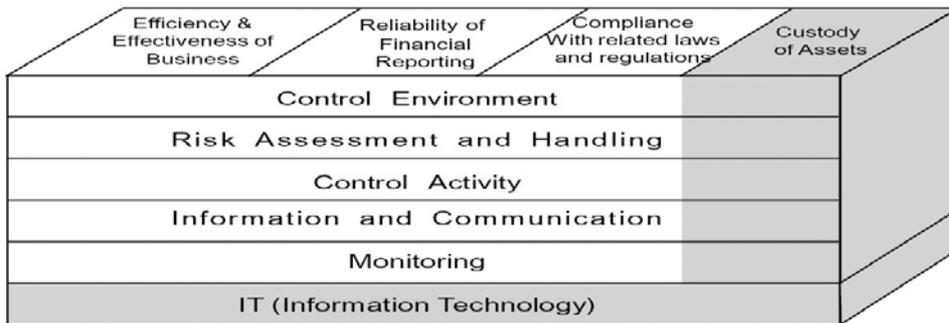
Implementing Standards on the assessment and audit of internal controls over Financial Reporting is composed of three parts;

- 1) Internal Control Framework.
- 2) Assessment of Internal Control over Financial Reporting and

- 3) Auditing Internal Control over Financial Reporting.

Though it would follow the Internal Control Framework of COSO, one additional item is included for each objective and composing elements. In short, the 4th objective, “Custody of Assets” and the 6th composing element “IT (Information Technology)” was added.

Japanese COSO Framework



Specific Parameter’s to be Observed While Working for J-SOX

For a Chartered Accountant, it is important to know some protocols to enter Japanese market

1. It takes a long time to build confidence among Japanese clients. Communication and pre planning is critical. A Japanese company would like to know beforehand the timelines. Once committed, it is very difficult to convince them about the delay.

A Chartered Accountant is the best suited to help in the compliance of J-SOX. To prepare for J-SOX compliance, documentation is must. A workflow tool is very helpful to draw business flow and document business activities. Tools like MS-Visio or MS-Excel/ MS-word help in a big way in documentation.

2. Sharing case studies is very effective. So the best way is to get your acceptance in one and then that Business case gets you more Business.
3. You have to start with Zero base. The most popular solution in the US/India may not necessarily correspond to the most popular one in Japanese market.

It means that you have a chance to make big success even if you are not listed on top Ranks’ in US/Indian market.

4. You should co-operate with influential system

consultants, integrators and strong distributors. When you speak with Japanese candidates as partner, do not hurry to make a contract. They start business without it.

Planning Ahead

Companies listed in Japan and operating in India as subsidiary companies will need to Report the J-SOX Compliance to the main Companies in Japan.

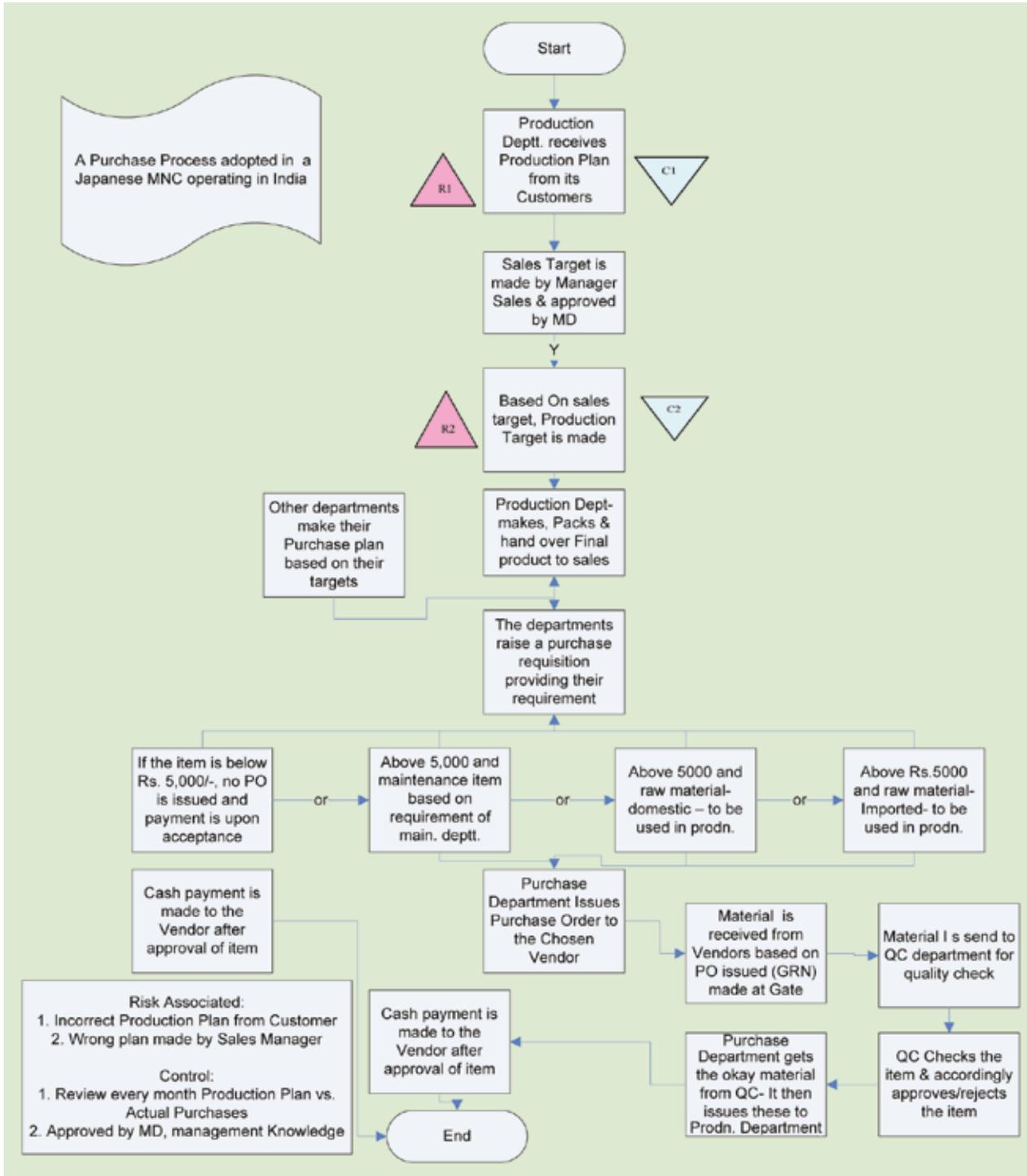
To implement the guidelines and preparing documentation, attention is to be given on:

- (i) Defining Process.
- (ii) Documentation of Process Maps.
- (ii) Defining the risks and controls in the process.
- (iii) After identifying the risk at each step, document the steps taken to mitigate such risks and to implement the Controls to counter the Risks.
- (iv) Testing of the Process regularly.

- (v) Reporting to Management the results of the tests and the controls in place.

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workflow tool is very helpful to draw business flow and document business activities. Tools like MS-Visio or MS-Excel/MS-word help in a big way in documentation. Following is an example of defining process, mapping and identifying risks and controls.



Corporate Environment Management - A Key to Sustainable Development



With the growth of economic development and progress of civilisation for which corporates are assuming the major role, we have been damaging and destroying the vitality of our environment. The environment with its resources is deteriorating worldwide at an unexpectedly increasing rate.

With increasing awareness among the stakeholders, regulators and society at large about the environmental problems caused by economic activities, the corporates can no longer remain indifferent to green issues. They can delink environment with their business strategies only at their own peril. The only option for them for sustained long term growth today is to pursue both the socially and environmentally responsible practices and economic interests at the same time. This article discusses the emerging concept of corporate environment management and its role in sustainable development.



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Over the years, particularly since World War-II there has been enormous growth of the Corporates with huge accumulation of Wealth and economic power. Indeed, more than half of one hundred largest economies in the world are not countries but corporations. The total sales of General Motors, Wal-mart and Exxon exceed the gross domestic product (GDP) of India. Internationally, corporate logos are more powerful symbols than national flags. This is one side of the story. On

the other hand, with the growth of economic development and progress of civilisation for which corporates are assuming the major role, we have been damaging and destroying the vitality of our environment. The environment with its resources is deteriorating worldwide at an unexpectedly increasing rate. The World Bank has pegged environmental damages in India at over \$9.7 billion, which is 4.5% of the Gross Domestic Product (GDP) in terms of health and productivity impacts. We are consuming 20% more natural resources than the earth could produce. Fossil fuel consumption has increased by 700% between 1961 and 2000. Nearly 40% of the terrestrial fresh water and marine species have gone extinct in thirty years between 1970 and 2000. (*Times of India, October 25, 2004*)

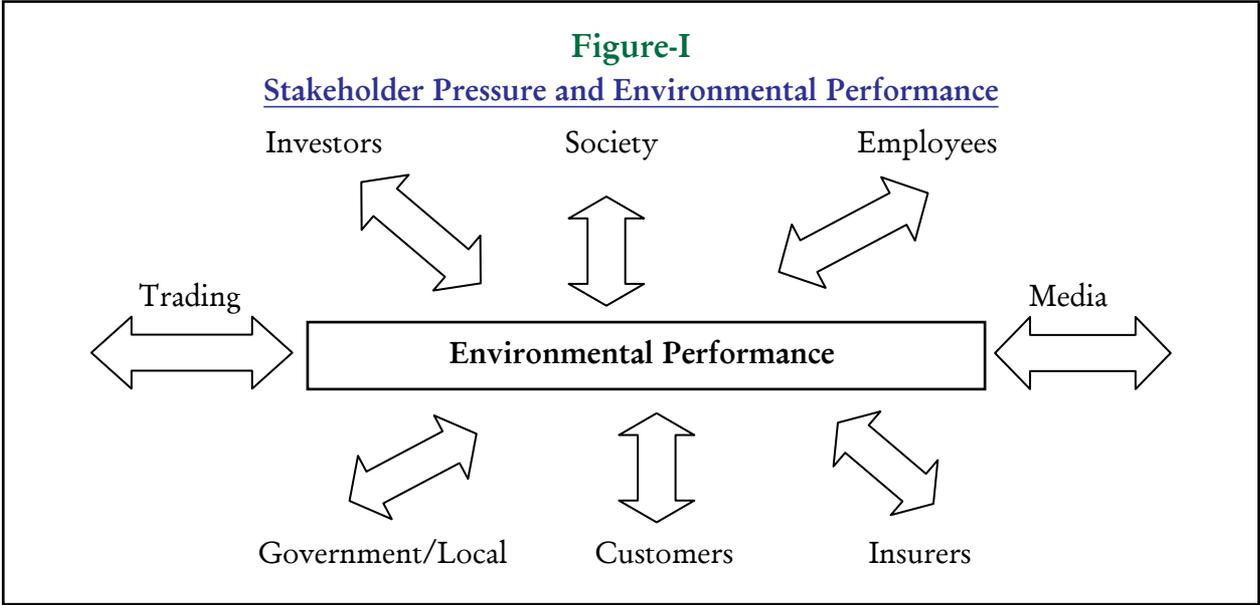
The memories of Exxon Valdez Oil spill and Union Carbide gas tragedy still haunt us. Given the rate at which we are polluting the water and air, cutting the trees, eroding the soil and warming the atmosphere, the days are not far of when the total ecological system will lose its balance and deteriorate to such an extent that the earth will no longer have enough vitality to sustain its habitants. Unfortunately, we are realising about the deadly consequences of destroying ecosystem the hard way. As an American Proverb goes: "Only when the last tree is cut, only when the last river is polluted, only when the last fish is caught only then they will realise that you cannot eat money". Pollution has no political boundaries and affects the earth as a whole. Environment degradation has emerged as one of the gravest threats to the humanity.

While carrying out their industrial and business activities, the corporates, in some way or the other, directly or indirectly, are creating various environmental problems like soil erosion, land degradation, pollution of air and water, deforestation, over exploitation of non-renewable natural resources and loss

of bio-diversity that need to be restricted, restored and properly nourished to reduce its damaging effects. Can we allow this situation to continue? Shall we continue to pursue only the goal of profit maximisation even at the cost of environmental degradation and threat to human race? We cannot sustain any form of economic development for long if we do not take our environment into consideration. Economic development can deliver long-term benefits only when it is environment-friendly. The corporates, as important vehicles of economic growth, can play a crucial role in this regard.

Stakeholders' Awareness and Pressure

Over the last few years, the expanding dimensions of emerging environmental issues and increasing awareness about them among the different stakeholders has been putting pressure on the corporate citizens for better environmental performance and for putting in place integrated environmental management approach while pursuing their corporate activities. Thanks to vigilant media and environmentalists, corporates are increasingly being put under scanner for their approach towards environment. As such, corporates are increasingly realising that if they want to stay in business and maintain their goodwill, they cannot ignore environmental concerns. Consequently, more and more corporates are revising their business strategies to incorporate environment-friendly practices and measures. Corporate environment management is now considered as an integral part of any good business strategy. There has been rising expectation among the customers, socially concerned investors, environmental interest groups and regulators that corporates become socially responsible and proactive on environment front. As such, management of environmental issues are getting top priority in corporate decisions pertaining to capital investments, cost determination, process/product design, performance evaluation, etc.



Source: Adapted from Welford and Gouldson (1993) *Environmental Management and Business Strategy*, Pitman Publishing.

Legal Framework for Environmental Issues in India

Environment protection has always been a pressing agenda in India. The Constitution of India vide Article 48A imposes a fundamental duty on every citizen to protect and improve the natural environment. Union Government, in coordination with various ministries and State Governments, has put in place several legislations for environment protection. Some major legislations include:

- The Factories Act, 1948.
- Merchant of Shipping Act, 1958.
- The Water (Prevention and control of Pollution) Act, 1974.
- The Forest Conservation Act, 1980.
- The Air (Prevention and Control of Pollution) Act, 1981.
- The Environment Protection Act, 1986.
- The Indian Fisheries Act, 1987.
- The Hazardous Waste (Management and Handling) Rules, 1989.

- The public Liability Insurance Act, 1991.
- Motor Vehicles Act, 1991.
- The National Environment Tribunal Act, 1995.

All the industrial units are required to comply with a number of norms and furnish a range of information under different legislations before getting clearance from state authorities. Further, Ministry of Environment and Forest has made Environmental Audit mandatory for all the industrial units who require approval from the State Pollution Control Board. Environment related issues and policies are required to be disclosed in the Director’s Report of a limited Company as required by the Companies Act, 1956. Of late, two series, ISO 14000(1996) and ISO 14001(1999), have been issued stating the industrial norms to be followed by the industrial units.

Cost Benefit Analysis of Environmental Management

Before embarking on any environmental management endeavour, the management of any company will be interested to know the costs and benefits associated with this exercise. If benefits exceed the costs, they will naturally be more interested in the project as it will add to

their profitability. The major costs and benefits in this regard may be as follows:

Environmental Management costs:

- (1) Capital expenditure on the acquisition of various measuring and controlling equipment.
- (2) Depreciation to be charged on such equipment.
- (3) Running and maintenance costs of such equipment.
- (4) Training and development costs of operators and employees.
- (5) Waste handling and treatment costs.
- (6) Cost of legal support and compliance management.
- (7) Insurance and lending costs.
- (8) Public relation, promotion and advertisement costs.
- (9) Remediation – contingent liability costs.
- (10) Other costs, if any.

Environmental Management Benefits:

There will be several benefits for an organisation, which properly addresses its environmental management issues and plays a proactive role in this regard. Some major benefits may be:

- (1) Reduction in material usage due to complete processing, substitution, reuse and recycling.
- (2) Yield improvement of process.
- (3) Better utilisation of materials thorough development of bye products and joint products.
- (4) Reduce idle and downtime through proactive repairs and maintenance.
- (5) Improved energy efficiency and lower energy consumption due to energy conservation policy put in place.
- (6) Conversion of wastes into valuable forms thus reducing handling and treatment of

waste.

- (7) Better quality product & lower product costs.
- (8) Safer product and less warranty and repair cost after sale.
- (9) Higher product resale and scrap value.
- (10) Enhanced image of the product leading to higher sale and increased profitability.
- (11) Improved safety performance and reduced risk exposure.
- (12) Reduced labour turnover and a higher commitment of labour toward production and productivity.
- (13) Lower insurance premium.
- (14) Better share price and reduced cost of capital to better access of credit and equity.
- (15) Better brand image.
- (16) Improved public relation through better compliance and management.
- (17) Tax incentives and concessions.
- (18) Improvement in health and quality of life of the workers and community.

Sustainable Development and Environmental Management

World Commission on Environmental Development (1987) has defined sustainable development as “development that meets the needs of the present generation without compromising the ability of future generations to meet their own needs”

It comprises three distinct but inter-related issues. Economic development through long term profitability, maintaining ecological system by addressing appropriately and adequately environmental management issues and supporting ethics and social justice in performance and decision making. So environmental management and economic development are not conflicting to each other, rather they are complementary to each other and should be managed in an integrated manner. Any organisation trying to

earn more profit by avoiding or ignoring environmental management expenses in the short term, is sure to suffer a blow in the long run when the process cost and product cost will go up due to wastage and other related penal and compliance costs towards cleaning and restoring environmental conditions. Further, several surveys indicate that youth of today are socially and environmentally conscious and stand firmly for environmentally responsible corporate practices. A company behaving in an environmentally-unfriendly manner is almost sure to loose in a big way in terms of their customers, goodwill and brand image. So development can be sustained on a long-term basis only with environmental friendly policies and practices.

So the key issue is: how to earn more profit and achieve more growth by going along with environment, and how can internal performance drivers contribute to the development of environmental strategies? This can be achieved in several ways. For example, a company may develop new products and new process, which are more environmental friendly. It can control pollution, conserve energy, minimise



Economic prosperity and environmental management are the two major links in the value chain a company needs to pursue. The cost associated with environmental management will not reduce profit but increase it many fold in the long run. This is the new theory of sustainable development.

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waste and effluents, recycle waste for re-use and development of by-products and thus reduce cost of operation, increase revenue and enhance profit and profitability. In the short term, environmental management expenses are always more than the benefits but in the long term the benefits far outweigh the expenses incurred. Thus, in the long run, there cannot be any conflict between environmental management and profitability of a firm.

Strategic Environmental Management System

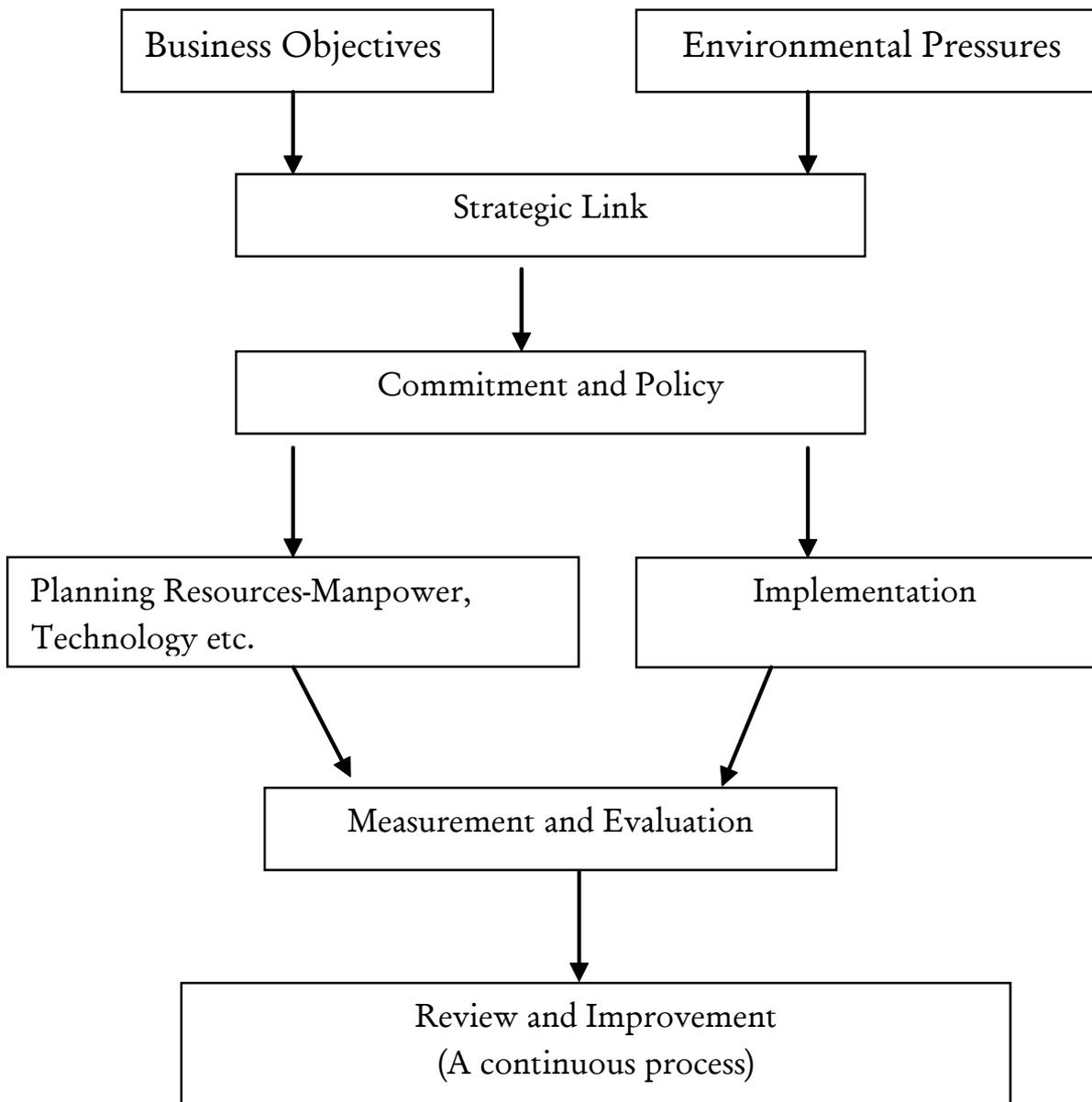
Having firm belief on the long term benefits of environment management expenses, companies must adopt environment friendly polices and formulate action plan to implement them. This is in essence, strategic environmental management – the integration of environment management with the goals of the firm through strategies. Suitable strategies should be formulated to

enhance competitive advantage based on environmental management so that actions can be translated into benefits, costs into cost reduction, cash outflow into cash inflow through increased volume of production and sale, and increase in customer base. This will improve corporate environmental performance and address the environmental demands placed upon

them by the stakeholders and the society at large. To take advantage of the public environmental concerns within a dynamic market place, the corporates need to incorporate more and more important environmental dimensions into their decision making processes and business strategies thus putting in place a strategic Environmental Management System as shown in Figure 2.

Figure - 2

Strategic Environmental Management System (SEMS)



Strategic Environmental Management System (SEMS) is a comprehensive system that suggests the fine-tuning of the business objectives to adjust with the environmental pressure through a strategic link that leads to commitment and policy formulations. Business objects and environmental pressures are not separately pursued but taken together to formulate business plan. Environmental management and protection activities are taken into consideration while developing the product and its use, selecting the technologies and production process and ultimately deciding on marketing and production channel to satisfy the customers' needs and expectations. Accordingly, resources are planned, mobilised and put to use. The performance (in terms of financial achievement and environmental performance index) is measured, evaluated and monitored along with actual production and sales functions for continuous improvement. Planning, implementing, evaluating, monitoring and action taking all are equally important for the success of the SEMS, as the journey of achieving excellence is an unending process, there is no finish line.

To quote Klassen and Mc Laughlin (1996): "The long term goal of environmental management is to move towards... considering environmental aspect in an integrated fashion in product design, the entire manufacturing process, marketing, product delivery and use, consumers service, and post consumers product disposition".

Conclusion

Business Managers have now to accept that with increasing environment consciousness, the corporate environmental performance will emerge as a key to sustainable development. So, in the pursuit of their economic interests, they have to pay more attention to the management and measurement of environmental performance.

Economic prosperity and environmental management are the two major links in the value chain a company needs to pursue. It will only support sustainable development. The cost associated with environmental management will not reduce profit but increase it many fold in the long run. This is the new theory of sustainable development. The leaders of the corporates have to realise this new theory - the sooner the better.

The regulators and the government need to emphasise on the corporate environmental performance report so that essential quantitative information based on certain clear and unambiguous parameters is made available to the public. The data should be presented in a comparable way to judge the environmental performance of the corporates. □

Directors' and Officers' Liability Insurance- An Effective Tool of Corporate Governance



The new paradigm shift of corporate governance under common laws, new corporate laws and Corporate Governance Committee has led to manifold increase in the importance of Directors and Officers Liability Insurance Policy—a tailor-made cover that transfers various kinds of legal liability risks from different corporations and their directors or officers to the insurance company. This article looks at this liability insurance policy—a must have for relevant directors and officers, as an effective tool of Corporate Governance. The article also provides an overview of technical aspects including coverage, exclusions and important terms and conditions of this liability policy besides a reference to directors' duties as per various laws.



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The spate of corporate collapses all over the world, the emergence of market-oriented management practices combined with liberalised cross-border movement of equity and debt funds in the forms of FDI, ADA, GDR and ECB and vulnerability of capital market have heightened the need of corporate governance framework and practices to protect the interests of diverse stakeholders. Though corporate governance practices and procedures differ widely across the world depending on nature, volume, spread and jurisdiction of corporate

activities it is the board of directors who are in charge of foundation and compliance of corporate governance requirements everywhere. The new paradigm shift of corporate governance under common laws, new corporate laws and Corporate Governance Committee has emphasised importance and use of Directors and Officers (D&O) Liability Insurance Policy, which was introduced by the Lloyds in 1930s in a small way. About 95% of Fortune 500 companies are having D&O liability insurance policy today.

D. N. Cadbury Committee and Corporate Governance

The good corporate governance issue was first brought into sharp focus by the extensive study report submitted by the Cadbury Committee to the London stock exchange in 1992. The Cadbury Committee Report has laid down "Code of Best Practices" spelling out the methods of governance under common law and corporate laws. The Cadbury guidelines provide a new yardstick against which directors' performance is judged and liability is decided for any breach of duty. The D. N. Cadbury Reports, which are being considered by many countries for putting corporate governance in practice, precisely provide that corporate governance is the system by which companies are directed and controlled. Board of Directors is responsible for the governance of their companies. The board sets financial policy and oversees its implementation, including the use of financial controls, and the process whereby they report on the activities of the company to the shareholders. Audit committees should be formally constituted to ensure their clear relationship with the boards. The Audit Committees have to raise the standards of corporate governance. Audit committee should review the internal audit programme. All directors are equally responsible in law for the board's actions and decisions. Non-executive directors are to review the performance of the board and of the executive. They are to take the lead if conflicts of interest arise. Non-executive

directors should bring an independent judgment to the issues of strategy, performance, resources, key appointments, and standards of conduct.

The Companies Act 1956, Corporate Governance & Scope of Insurance cover

The Companies Act 1956 has inserted a new section 292A in (Amendment 2000) providing for establishment of Audit Committee for better practice of corporate governance. **Sec. 292A** precisely provides that every public limited company having a paid-up capital of at least Rs. five crore shall constitute a Committee of the Board to be known as Audit Committee. The Committee shall have at least three (3) members (directors). Two-third (2/3) of the members shall be non-executive directors. The statutory auditor, the internal auditor and director-in charge of finance shall attend every meeting of the audit committee but shall not vote. The audit committee should discuss half-yearly and annual accounts with auditors before presenting the same to the Board. The Audit Committee shall have right to investigate any matter covered under the broad terms of reference. The recommendations of the Audit Committee will be binding on the Board. The Chairman of the Audit Committee shall attend the annual general meeting to provide clarifications on matters relating to audit. Audit Committee should discuss internal controls, audit, and observations of auditors, review of periodic financial statements etc. and compliance of internal control system.

Sec. 201 avoids any contract relieving or reimbursing any liability of officers and auditors. It provides that any provision, whether contained in the article of a company or in an agreement with a company or in any other instrument, for exempting any officer of the company or any person employed by the company as auditor from, or indemnifying him against, any liability which, by virtue of any rule of law, would otherwise attach to him in respect of any negligence, default, misfeasance, breach of duty or breach of trust of which he may be guilty in relation to the company, shall be void.

Provided that a company may, in pursuance of any such provision as aforesaid, indemnify any such officer or auditor against any liability incurred by him in defending any proceedings, whether civil or criminal, in which judgment is given in his favour or in which he is acquitted or discharged or on application u/s 633 in which relief is granted.

Sec. 201 provides for the personal legal liability of directors, officers and audit committee members. Here, they need a direct insurance cover under agreement A explained hereinafter. The Proviso of this section provides for companies duty to reimburse for the liability of the officers or directors where the relief is granted by the court. For that purpose the company is required to purchase a D&O policy under agreement B cover.

Sec 322 provides for unlimited liability of Directors as per memorandum of association.

Sec 323 provides for unlimited liability of Directors on Special Resolutions.

Sec.217 provides for directors' duty of disclosure on the matters specified therein.

D&O Liability Policy & Management of Risks

Thus the directors and officers owe different kinds of duties to various stakeholders including shareholders, financiers, customers, regulators, employees and public at large under common law, corporate laws and security laws (clause 49 in listing agreement). The duties they owe to them are (i) Duty of Care, (ii) Duty of Disclosure, (iii) Duty of fiduciary and (iv) Duty of loyalty. They are liable to these stakeholders for breach of any such duty or negligence causing financial losses. But the question comes as to how the directors and officers can manage such risks of legal liability if they arise because of negligence (breach of duty) or wrongful decisions. The answer is Directors and Officers' liability Insurance policy. A duly defined Directors' and Officers' liability Insurance policy covers all such legal liability risks provided they are of civil nature.

D&O Liability Insurance- Its Scope and Coverage

D&O Liability insurance protects the corporations and their directors or officers from various legal liabilities (civil wrongs) arising from the negligence or wrongful actions of the directors or officers. This Insurance covers directors' and officers' legal liability under common law, corporate law and security laws for their wrongful actions or decisions causing financial losses to stakeholders of the company. The coverage under D&O insurance is divided into four categories - A, B, C & D Insuring Agreements

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Agreement 'A'... Direct cover to Directors where corporate Indemnification denied.

Agreement 'B'... Coverage for Corporate Reimbursement to Directors and Officers.

Agreement 'C'... Coverage for Entity Securities.

Agreement 'D'... Coverage for Employment Practices Liability.

A single policy may provide multiple and varied covers either with different insuring agreements by standard forms and clauses or with different endorsements.

Insuring Agreement A: It is also known as "A-Side Coverage" providing coverage directly to the directors and officers for loss and defense expenses

resulting from legal liability from wrongful actions or decisions. A-Side Cover applies where the corporation does not indemnify its directors and officers. Reference can be made sec.201 of the companies Act 1956.

Insuring Agreement 'B': It is a corporate reimbursement coverage. Under this cover the insurer reimburses the company for loss resulting from the company's obligations to reimburse the directors and officers to the extent required or permitted by law under the proviso of the Sec.201 of the Companies Act for suits alleging wrongful acts committed by directors and officers.

Insuring Agreement 'C': It is coverage for

D&O Policy covers wrongful acts or breach of duty of Individual Directors or Officers of Company provided the breaches are civil wrongs and the liability has been decided by the court of law. Wrongful acts mean any error, misstatement, misleading statement, act, omission, neglect, breach of duty, breach of trust by director/officers in their official assignment.

Directors' legal liabilities for financial losses to the investors due to directors' wrongful acts of the following nature;

1. Any violation of Securities Laws; SEBI Laws or non-compliance of requirements under clause 49 mandatory for listed companies.
2. Act, error, omission, misstatement, misleading statement or breach of duty by an Insured in connection with the purchase or sale, or offer to purchase or sell, securities issued at any time by the Insured Entity.

Insuring Agreement 'D': It is coverage against legal liability from Employment Practices or wrongful acts like:

- (1) Wrongful discharge or termination of employment, including constructive discharge;

- (2) Employment-related misrepresentation;
- (3) Sexual or other workplace harassment;
- (4) Wrongful failure to employ or promote;
- (5) Wrongful deprivation of career opportunity, employment or promotion;
- (6) Wrongful discipline or evaluation;
- (7) Failure to adopt or provide adequate employment or workplace policies and procedures;
- (8) Wrongful retaliation; or
- (9) Violation of any law concerning discrimination in employment, promotion
- (10) Violation of corporate policy on transfer, promotion and mobility, etc.

Scope of Policy; Who Can be Covered?

The officers and directors covered by such insurance policy are of following kinds;

- Directors and Officers of the company.
- Former, Present and Future Directors and officers.
- Outside Directors and Nominee Directors.
- Officers/employees occupying Management or Supervisory capacity.
- Directors and officers of the Holding Company.
- Parent Company and the Existing Subsidiaries.
- Directors representing the group in an associate company.

Shadow directors are not covered by policy. Shadow Director is one who holds the majority of equity, owns the company and retains the control over the company, but places others on the board as directors and officers to make the people think that others are liable for any wrong done, but not he.

Wrongful Acts Admissible Under D&O Liability Insurance Policy

D&O Policy covers wrongful acts or breach of duty of Individual Directors or Officers of Company provided the breaches are civil wrongs and the liability has been decided by the court of law. Wrongful acts mean any error, misstatement, misleading statement, act, omission, neglect, breach of duty, breach of trust by director/officers in their official assignment. Few examples of such wrongful acts admissible under D&O liability policy are listed below:

- Inaccurate statements of financial conditions.
- Errors in annual accounts.
- Conflict of interest.
- Lack of application of diligence or good faith.
- Mismanagement of funds.
- Misstatements in prospectus.
- Allotment of shares.
- Unauthorised or imprudent loans or investments.
- Failure to obtain competitive bids.
- Imprudent expansion resulting in a loss.
- Unwarranted dividend payment, salaries or compensation.
- Improper loans made to directors.
- Violation of Loan covenant.
- Misleading statements filed with the Stock Exchange.
- Misrepresentation in acquisition agreement for the purchase of another company.
- Wrongful dismissal of an employee.
- Employee discrimination or unfair employment practices.

With proper CASE (Circumstances, Actions,



Security and Events) study the underwriters identify, analyse and evaluate all possible risks factors before they issue such policy to any company or directors. With risk management expertise, the insurers also help the corporations and their directors to make a systematic approach and strategy for financial risk analysis and ensure better corporate governance.

Who Can Sue Directors and Officers for Wrongs Done?

The common conception held by directors is that only shareholders can ensure actions against them for their wrongful acts. But it is not the fact. Any of the following stakeholders can ensure successful actions against directors and officers for their wrongful acts:

- Shareholders, bondholders or other security holders.
- Govt. departments, Tax & Security authorities and Regulatory Authorities.
- Customers and Depositors,
- Creditors.
- Competitors.
- Employees –present and past.
- Receivers, Liquidators and administrators.

(a) **Shareholders:** Shareholders are the most-

interested group who depend upon the directors managing their funds and the company on their behalf. The return on their investment and the security thereof depend absolutely on the effectiveness of their management. The directors owe jointly and severally a great duty of care, trust and loyalty to the shareholders. The shareholders or their representatives may bring variety of legal actions against the directors for breach of any such duties. Following are few examples.

1. Shareholders have succeeded in actions against directors when the **profit forecasts** made by directors at the beginning of the year went in vain at the end of the year.

2. Shareholders have brought actions against directors for their **misleading statements** that led the shareholders to sell their shares prematurely at lesser price.

3. Where capital comes from sources like venture capital, private individuals or merchant banks, the lenders in such situations are similar to that of shareholders and bring actions against directors for **misrepresentation** causing financial loss of capital providers.

4. Minority shareholders bring a **derivative action** against the company and its directors for the costs of proceeding for enforcing their rights. All such legal actions for claims are admissible in D&O insurance policy

(b) **Creditors:** In case of insolvency both secured and unsecured creditors suffer financial loss. Secured creditors can lose out if the assets charged are not realisable much. Loans or credits received are utilised for book debts, property & buildings, plant & machinery, investments and advances. Building may be overvalued; property may not exist or exist for lower value, plant & machinery may be unusable, investment may be of less realisable value. In all cases creditors or lenders may initiate successful legal actions against the directors' and officers' breach of duty of care or trust, which are admissible in D&O policy.

- *Credit Lyonnais Bank V. Pathe Communication*

Corp (1991) USA: In this case the board's duty to creditors and employees was recognised in preference to shareholders. When a firm was going to be insolvent, the board of directors attempted for high risks of expansion and other strategies. The shareholders were aware of the risks, so the primary duty moved away from the shareholders to the creditors when the strategy failed and the firm went into insolvency.

(c) **Customers:** Customers may bring actions directly against the directors and officers for defects or deficiency in the products sold under statements of directors of the company. Product liability insurance may respond to such action, if it is brought against the company. But if action is brought against any director giving statement or representation for marketing of products, then D&O liability insurance policy is to respond such action and claim.

- *Thomas Saunders v. Harvey (1989) UK:* A MD who on behalf of his company fraudulently misrepresented a product specification to a customer was found to be personally liable for £93000 in respect of a statement made as to the suitability of flooring for its intended use. By making the statement Mr. Harvey, MD had been guilty of the breach of the duty of care.

(d) **Government Departments & Agencies and Regulators:** Government departments including Taxation Dept, Import & Export Dept, Excise Dept. Money Market Regulator (RBI), Capital Market Regulator (SEBI), and Dept for Protection of Environment (Pollution Control Board) are responsible for protection of national resources and pursue actions directors or the company.

(e) **Receivers Liquidators and administrators:** When a company gets into financial crisis and insolvency, official receiver, liquidator and administrator can initiate actions against directors and officers of the company for the

financial loss arising out of wrongful acts or breach of duty of officers and directors.

Certain Policy Wordings and Exclusions

The company or the Directors and Officers must take into account the following important wordings and exclusions before they decide to purchase Directors and Officers liability policy for transferring their legal liability to insurance company.

1. **Claim-Made Policy:** The claim made policy applies only to claims first made during the policy period. The limit of liability available to pay damages or settlements will be reduced and may be exhausted by the payment of defense expenses. The insurer is not duty-bound to defend any insured. Please read and review the policy carefully.
2. **Insuring Agreements:**
 - (i) On behalf of the Insured Persons, the Underwriter will pay Loss from Claims first made during the Policy Period against the Insured Persons for Wrongful Acts, except for Loss, which the Insured Entity is required or permitted to pay to or on behalf of the Insured Persons as indemnification.
 - (ii) On behalf of the Insured Entity, the Underwriter will pay Loss for Claims first made during the Policy Period against the Insured Persons for Wrongful Acts which the Insured Entity pays to or on behalf of the Insured Persons as indemnification; and
 - (iii) On behalf of the Insured Entity, the Underwriter will pay the Insured Percentage of Loss from Securities Claims first made during the Policy Period against the Insured Entity.
3. **Indemnity Limit:** In case of claim admissible under the policy, the insurer indemnifies the loss or pays for the claims on the following two limits specified in the policy:
 - (i) *AOA Limit: Payment per accident or event up to Any One Accident Indemnity Limit.*
 - (ii) *AOY Limit: Payment for the policy period i.e. up to total Limit for accident over the year.*

The common conception held by directors is that only shareholders can ensure actions against them for their wrongful acts. But it is not the fact. Any Government department, Tax & Security authorities and Regulatory authorities, Customers and Depositors, Creditors, Competitors etc. can facilitate action against directors.

Exclusions:

- (i) **No coverage** will be available under this Policy for Loss, other than Defense Expenses, from Claims:
 - a. Against any Insured brought about or contributed to in fact by any dishonest or fraudulent act or any willful violation of any statute, rule or law by any Insured;
 - b. Against any Insured brought about or contributed to the gaining by any Insured of any profit, remuneration or advantage to which such Insured is not legally entitled; or
 - c. Based on, arising out of, directly or indirectly resulting from, any actual or proposed payment by the Insured Entity of allegedly inadequate consideration in connection with purchase or sale of securities issued by the Insured Entity.
 - d. Insured vs. Insured i.e. Directors or Officers versus Directors or Officers.
- (ii) **No coverage** will be available under this Policy for Loss, including Defense Expenses, from Claims based on, arising out of, directly or indirectly resulting from, or in any way involving any:
 1. Actual or alleged bodily injury, sickness, mental anguish, emotional distress, disease or death of any person, libel, slander, oral or written publication of defamatory or disparaging material, or damage to or destruction of any tangible property including loss of use thereof; or

2. Actual, alleged or threatened exposure to, or generation, storage, manifestation, transportation, discharge, emission, release, seepage, migration, escape, appearance, presence, reproduction, growth, treatment, removal or disposal of any Pollutant; or
3. Cost, expense or charge to test, monitor, clean up, remediate, mitigate, remove, contain, treat, detoxify, neutralise, rehabilitate, or in any other way respond to or assess the effect(s) of any Pollutant.

Consideration for Premium, terms

An underwriter generally considers the following major aspects for accepting such liability risks and determination of premium rate, terms and conditions.

- Financial history of the organisation
- Its asset size
- Its organisational structure
- Geographical spread
- Recent profile or events
- The size of the sum insured
- The deductible selected
- Past claims history

This policy is absolutely a tailor-made policy issued by an insurer after proper CASE study of the corporate entity: The CASE stands for

C = Circumstances (Socio-economic condition under which the entity is working at present)

A = Activity (Various operations and their legal jurisdiction)

S = Security (Audit Committee, Investment Committee, Internal Control etc)

E = Events (Agenda or plan for Merger & Amalgamation, Reconstruction, Import/Export)

CASE Study for D&O Ins. Underwriting: Scope and Considerations

- A detailed Proposal Form furnishing information about shares, shareholders, creditors, employees, customers, regulators, holding pattern, strategic events etc.
- A list of all persons who are directors or officers of the company or its subsidiaries with full information about their age, position, qualification, experience, shareholdings etc.
- Number of shareholders and what percentage of shares owned by the directors.
- Details of shareholdings: Whether greater than 5% in any class of the issued shares?
- Are the shares listed on a recognised stock exchange? If yes, give details.
- What new businesses or projects have been acquired or completed currently during last twelve months and potential risk exposures therein?
- Are there any acquisitions or mergers or strategic alliance under considerations?
- Insurers identify the likelihood or possibility of claims arising out of past events, which may surface in the policy period though it will be claim-made policy.
- Insurers need to be more analytical about future events of the company or directors that may give rise to claims for legal liability against directors and officers of a company for their wrongful decisions about future events. So appropriate enquiries must be made by the underwriters for past as well as future events and they should consider full and truthful answers to such questions before they accept the risks.

D&O Liability Policy: World View

(a) **The US Experience and Practice:** Lloyd's underwriters for a US corporation issued the first D&O liability insurance policy in the 1930s. Initially the cover was very selectively underwritten and was very costly and complex in comparison with today's trend world over. In those days only few policies were sold for a few companies in the USA and the UK. Following the World War II, the demand for D&O Liability insurance cover slowly increased. As recovery process continued, the interest in actions against directors and officers got renewed and consequently the demand for D&O liability insurance coverage also increased. The Lloyd's underwriters continued to control the USA market with specialised brokers till 1950s. The US domestic market developed for D&O liability insurance underwriting in 1960s following various legislations, which enhanced awareness of the need for such covers for directors and officers in corporate. By 1970 D&O liability insurance was established as distinct class of business for effective management of the important liability risks of the corporations and of their directors or officers. Since 1980s, the D&O liability insurance peaked in the country more aggressively than any other liability insurance policy. During the end of 1990s the market for D&O insurance cover got more stabilised with abatement of the crisis of financial industry, prudent underwriting based on expected exposures of claim costs and appropriate reinsurance programming. As we know, in 1990s the US financial industry was in severe turmoil and much in banking industry with total mess, there were tremendous rise in D&O claims all over the country. The common claims were relating to misleading statements, misrepresentations, breach of employment contracts and breach of duty of care, loyalty, fiduciary or disclosures to shareholders and also frauds and dishonesty. In banks and other financial institution, the common allegations were of imprudent investments, loans and advances. In late 1990s the insurers experienced a fresh attack of D&O claims from high-tech companies having faced huge lawsuits from their stakeholders for the sudden corporate collapses arising from fall or failure of limited products or experts in the sector.

A re-insurer called Executive Re in 1993

undertook an exhaustive study covering over leading 1000 US companies in this regard. The Executive Study Report reveals as under:

- 50% of non-executive directors were sued at least once for wrongful acts and advices.
- 90% outside directors and CEOs became reluctant to accept a board directorship without adequate D&O insurance cover.
- 93% of outside directors and CEOs felt that over a three year period, lawsuits against Directors and CEOs would increase.

Furthermore every year in the USA and the

There are no short-cuts or quick solutions to the aspect of values ethics or principles. Corporations are nothing but aggregate of people and their actions and interactions. So, improvement in the quality of corporate governance can improve only if each and every individual starts culturing human values in the inner world of himself.

UK, the specialist consultancy firm Wyatt surveys major corporations with regard to their D&O insurance cover and claims. Wyatt Survey Report 1997 reveals the following findings are essential to analyse the role of D&O liability insurance policy in the corporate management and good governance.

- 62% of the companies under survey had D&O covers.
- 31% of all companies were having D&O liability Claims.
- Public Cos. were having D&O liability claims 3times more than private Cos.
- Companies with more than 500 shareholders were susceptible to high frequency.

- Companies with less than \$100mn assets were having 12% susceptibility to claims.
- Companies with more than \$10bn assets were having more than 63% susceptibility to claims.
- 55% of them were fraught with substantial annual premium hike.
- 26% of the policyholders had made claims.
- AIG, Lloyd's, Chubb and Sun Alliance were found to be main insurers.
- Sedgwick, Willis, Alexander & Alexander, Bowring and Minet were main brokers.
- Policy limits varied between £5mn and £130mn.
- Wrongful acts were mainly on termination, marketing discrimination, dishonesty & frauds, and financial reporting.

(b) UK Experience and practice for D&O liability Risk and insurance: Though the first D&O liability insurance covers were written in 1930s, the market for this liability insurance matured only in 1980s. The deep recession of 1990s made more and more company directors feel the importance of D&O liability insurance and purchase the covers to transfer their increasing legal liability to the stakeholders. The UK is the world's second most developed market next to the US using Directors and officers liability insurance for liability risk management of the corporations as well as of their directors and officers. In UK major D&O claims arise from former employees, shareholders, competitors and government agencies for wrongful termination, dishonesty or fraud, misreporting of financial matters, and discrimination. Lawyers and accountants, in an effort to protect their own professional indemnity, generally recommend that executive and non-executive directors ensure that the company has had adequate cover for their directors and that the directors also consider for their individual covers separately.

D&O Legal Liability: Decisions

(i) Breach of Duty of Care: Directors must act with due diligence and care. This signifies that in managing the company affairs they should take as much as care as a prudent director will take in the similar situation. All decisions must be taken and all actions must be performed in good faith and in a manner, which serves the best interest of the company and does not lead to any conflict of interests.

- *Martine V. Harline (1992) USA:* An individual director was held liable for losses incurred by an Employee Plan Benefit. The director appointed an unqualified person to run the plan. Even though the director was one of the several executives who had approved the appointment and as he argued, others could have outvoted him in any case, the Court rejected the defense.

(ii) Breach of Duty of Disclosure: U/S 217 of the Companies Act Directors are required to disclose all material facts and figures correctly in annual report or other statements signed and submitted to various authorities, regulators, stakeholders, financiers. Directors are liable for violation of such duty to the stakeholders.

(iii) Duty of Loyalty: It is the duty of the directors to be loyal to the shareholders, who have appointed or selected them for managing the company on their behalf. Accordingly they must act and take decisions with total integrity and in the best interests of the company.

- *First Maryland Savings and Loan:* In this case, the US bank failed and former directors were sued for reasons that instead of making profits for the bank, directors had been helping themselves and their friends to get rich. The jury awarded \$350mn as the result of an action brought by Maryland Deposit Insurance Fund.

(iv) Breach of Duty of Trust: Directors are personally liable to stakeholders for breach of duty of trust:

- **Selangor Rubber Estates Ltd. Cra-doc and Others (1968):** Two directors were held personally liable for losses of £232000 as they had breached their duties as directors as well as breached trust. A third director, who was also liable for the losses, was bankrupt and unable to pay damages.

(v) Breach of Duty of Compliance: Directors must act within the legal and regulatory framework. They must comply with various statutes, common and international laws, taxation law and rules, security regulations and regulatory norms, environment laws etc.

Although companies have often been prosecuted for breach of environmental law, most laws in the UK also provide for prosecution of individual directors or officers in the company. In UK, 25 environmental statutes expressly provide for the prosecution for some 175 separate offences, which may be committed by their companies. In India also individual directors are held personally liable for violation of environment laws.

- In *M C Mehta V. Union of India* relating to oleum gas leak of M/S Shriram Industries the Supreme Court held that the Managing Director of the company is personally responsible for all safety measures. The Landmark Supreme Court Judgment on Directors' Liability said:

"The Management of Shriram will obtain an undertaking from the Chairman and Managing Director of the Delhi Cloth Mills Ltd., which is the owner of the various units of Shriram, as also from the Officer or Officers who are in actual management of the caustic chlorine plant, that in case there is any escape of chlorine gas resulting in death or injury to the workmen or to the people living in the vicinity, they will be personally responsible for payment of compensation for such death or injury and such undertaking shall be filed in court within 1 week from today."

Subsequently, the Supreme Court modified the order as follows:

"We would therefore, modify the condition prescribed by us

by providing that undertaking shall be obtained from the officer who is 'occupier' of the caustic chlorine plant under the Factories Act, 1948, and/or the officer who is responsible to the management for the actual operation of the caustics chlorine plant as its head and such undertaking shall stipulate that in case there is any escape of chlorine gas resulting in death or injury to the workmen or to the people living in the vicinity the officer concerned will be personally responsible, to the extent of his annual salary with allowances, from payment of compensation for such death or injury but if he shows that such escape of gas took place as a result of Act of God or is major or sabotage or that he had exercised all due diligence to prevent such escape of gas, he shall be entitled to be indemnified by Shriram."

In another case namely *Anil Hada Vs India Acrylic Ltd* – the Supreme Court held that Directors of a Company are personally responsible for the debts of the Company.

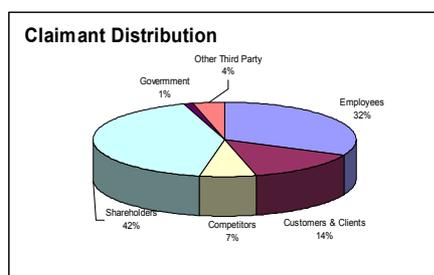
Conclusion

The directors and officers are getting more and more exposed to variety of legal liability in the increasingly litigious corporate world. Their duties and responsibilities have further multiplied due to specific requirements for good corporate governance. But there are a lot of limitations and constraints on the part of the directors to be always vigilant so that they can always take right decisions to ensure the best performance of the company. The major constraints come from macro factors like market risks, technology risks, political risks or financial risks where they do not have any control. So they are prone to make mistakes and commit wrongful acts in some cases. For wrongful acts they are liable to stakeholders under the best practices of corporate governance. The Directors & Officers Liability insurance policy helps the directors and the company to transfer such financial risks and legal liabilities to the professional fund managers. The Corporate Governance and Financial Reporting Centre, a unit of the NUS Business School, National University of Singapore conducted a survey on "Corporate Governance and Directors and Officers Liability" in 2004. The following part of the said report briefly highlights the role of this important cover and different views in this regard:

Views on D&O Liability Insurance Policy and Corporate Governance

	Strongly Agree	Agree	Neutral	Disagree
Companies should inform non-executive directors of their insurance cover before they are appointed, as suggested by the Higgs Report of UK (January 03).	24%	49%	23%	4%
Having D&O liability insurance helps retain experienced directors.	10%	50%	30%	10%
D&O liability insurance premium is good value for money (premium paid vs. risk cover).	5%	46%	39%	10%
D&O liability insurance is an essential part of a listed company's insurance programme.	26%	54%	12%	8%
D&O liability insurance is an essential component of corporate governance.	8%	60%	23%	9%
Our Directors and Officers are very interested in the scope of D&O insurance cover.	6%	56%	32%	6%

From the above survey report we can realise the role of Directors' and Officers' Liability Insurance in ensuring the best practices of corporate governance by transferring the financial risks from individual director, officer or entity to the insurance sector and then to the capital market through Advanced or Alternative Risk Transfer (ART) mechanism of Insurance being widely used by the insurers and reinsurers in the USA and UK in view of high probability and severity of such insurance claims. The following is the trend of insurance claims in Directors and officers' liability insurance policy in the USA, UK and other advanced countries.



I am sure, the Indian managers, including directors, officers and Audit Committee members in the MNCs, are to face similar trend of D&O claims from shareholders, financiers, customers, employees and regulators in the regime of good corporate governance. Without D&O Policy they cannot manage such rapidly rising liability claims from various stakeholders in the highly litigated corporate environment. □

Taxation of Antiquities: An Overview



Whether a particular holding of shares is by the way of investment or forms part of the stock in trade is a matter which is within the knowledge of the assessee who holds the shares and it should, in normal circumstances, be in a position to produce evidence from its records as to whether it has maintained any distinction between those shares which are its stock-in-trade and those which are held by way of investment

The Antiquities Art Treasures Act, 1972 (52 of 1972) as amended in 1976 (82 of 1976) and Antiquities (Export Control) Act, 1947 (31 of 1947) are two important Acts which regulate the purchase, sale and export of antiquities. This article discusses the Antiquities and Art Treasures Act, 1972 with reference to the recent amendments of section 2(14) made by finance Act 2007. The important issue of the valuation of these antiquities is likely to create plethora of litigations.



— CA. Vishnu Mahajan

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The objectives behind the Antiquities Art Treasures Act, 1972 (52 of 1972) as amended in 1976 (82 of 1976) and Antiquities (Export Control) Act, 1947 (31 of 1947) are to regulate the country's antiquities and treasures and preserve the national heritage. These statutes are comprehensive legislations which also include regulating provisions on export of antiquities and art treasures, their registration and licensing and prevent smug-

gling and fraudulent dealings in them. The provisions of these Acts empower the authorities to compulsorily acquire these articles and deal with the method of their assessment/appraisal and valuations for paying compensation.

Antiquities Defined

- (a) Any coin, sculpture, painting, epigraph or other work of art or craftsmanship;
- (b) Any article, object or thing detached from a building or cave,
- (c) Any article, object or thing illustrative of science, art, craft, literature, religion, customs, morals or politics in bygone ages,
- (d) Any article, object or thing of historical interest,
- (e) Any article, object or thing declared by the central government by notification in the official gazette, to be an antiquity for the purposes of this act, which has been in existence for not less than 100 years,
- (f) Any manuscript, record or other document which is of scientific, historical, literary or aesthetic value and which has been in existence for not less than 75 years,
- (g) “Art treasure” means any human work of art, not being an antiquity declared by the central government by notification in the official gazette to be an art treasure for the purposes of this act having regard to its artistic or aesthetic value.

Income Tax Act, 1961

Under Section 2 (14) of the Income Tax Act 1961 “Capital Asset” means property of any kind held by an assessee whether or not connected with his business or profession but does not include “Personal Effects that is to say movable property including wearing apparel and furniture but excluding jewellery held for personal use by the assessee or any member of his family dependent on him”. This was the position up to 31st March 2008. Till this date personal effects like wearing apparel and furniture were considered as personal effects and jewelry held for personal use was excluded. As per the position up to 31st March, 2008 personal effects were not considered as Capital Asset

However, the Finance Act 2007 amends sub clause (ii) to clause 14 of section 2 with effect from 1/04/2008 by which from the term Personal Effect, the following categories of

articles have been excluded:

- (a) Jewellery (b) Archaeological collections
- (c) Drawings (d) Paintings (e) Sculptures
- (f) Any work of art.

Specified Items of Antiquities

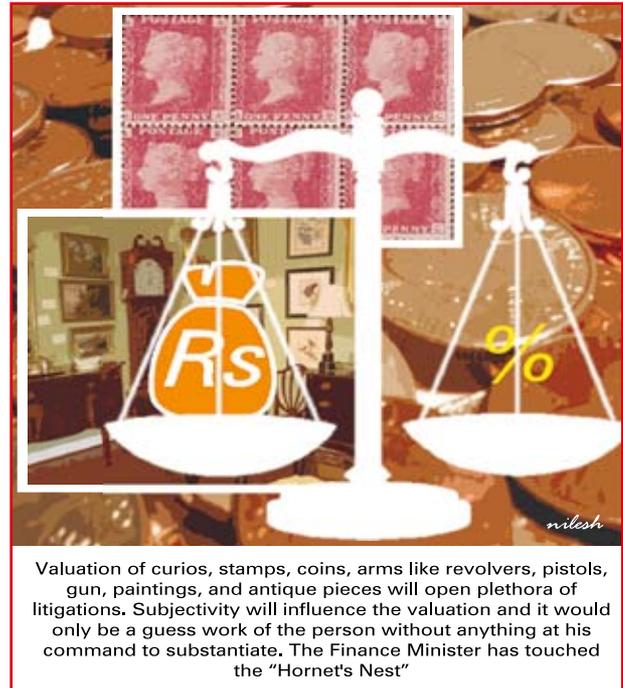
The effect of the amendment of Section 2 (14) made by the Finance Act 2007 is that now personal effects like jewellery, archeological collections, drawings, paintings, sculptures and any work of art will be considered as a Capital Asset.

Capital Gains on Transfer of Antiquities: Section 45 of the Income Tax Act 1961 attempts to tax transfer of a “Capital Asset” effected in the previous year under the head “Capital Gains” and deems such Capital Gains as income of the previous year in which the transfer took place.

However, under clause (ix) of section 47 of the Act transfers of a capital asset being any work of art, archeological, scientific or art collection, book, manuscript, drawing, painting, photograph or print to the government or University or the National Museum, National Art Gallery, National Archives or any such public Museum or institution or institutions as may be notified by central government in the official gazette to be of National importance or renowned throughout state or states are excluded from such transfers. This means that any of the above articles mentioned above, if transferred to agencies other than those mentioned above, may amount to transfer.

The word personal effect connotes that the articles which pertain to the assessee’s person means that an intimate connection between the effects and person of the assessee has to be established to render these articles the character of personal effects. The amended clause attempts to bring the above category into the ambit of tax.

For the first time items like paintings, archeological collections, sculptures and work of art,



Valuation of curios, stamps, coins, arms like revolvers, pistols, gun, paintings, and antique pieces will open plethora of litigations. Subjectivity will influence the valuation and it would only be a guess work of the person without anything at his command to substantiate. The Finance Minister has touched the “Hornet’s Nest”

if sold, will be liable to Capital Gains tax subject to clause (ix) of section 47 of the Income Tax Act 1961. The articles included in the category of capital assets have to be understood in the right perspective.

Archeological Collections: Archeological collections imply articles that are dug out from the ground.

Drawings: Drawings have to be understood in their natural context and may include sketches or pencil drawings which can include work of art or drawings of scientific references of by-gone generations or such work of art depicting an era in history.

Work of art: Work of art has a very wide connotation in as much as it can include anything which can be termed as document manuscript having historical context and having aesthetic quality. Scriptures would include old writings on cloth (Sanskrit, Pali, Ardhamagdhi etc) like Ramayana, Mahabharata or Upanishads, Rubaiyas or religious scriptures like Gita, Quran, Guru Granth Sahib or Poethi with artistic coloured borders or such other things.

Sculptures: These could include the art of making and dimensional figures and shapes by carving stone or wood or casting metal.

Valuation

In absence of set rules for the valuation of these categories of these antiquities the general principle “What it would fetch if sold” has to be applied. The supreme court in *CWT Vs Prince Muffakhan Jang Bahadur (200) 247 ITR 351 (SC)* has enunciated the principle of “What a willing purchaser would pay for it”.

Valuation of curios, stamps, coins, arms like revolvers, pistols, gun, paintings, and antique pieces will open plethora of litigations. Subjectivity will influence the valuation and it would only be a guess work of the person without anything at his command to substantiate. The Finance Minister has touched the “Hornet’s Nest”

The categories of antiquities brought in the tax net i.e., jewellery, archeological collections, drawings, paintings, sculptures and any work of art are all antiquities and their valuation for ascertaining their cost or market value will create controversies as the Act or rules are yet to be clearly spelt for these categories. For the qualifications of valuers, one has to look into the Wealth Tax Act and the rules framed thereunder. Under Rule 8A (10) of the Wealth Tax Act, the qualification of the work of art has been stated. A valuer for work of art has to have the following qualifications:

- (i) He must have specialised by virtue of his academic and professional pursuits in the particular line of art, for the works of which he seeks to be registered as a valuer, and
- (ii) He must have served in any one or more of the following capacities, namely:-
 - (a) Director General or Superintending Archeologist of Archeological survey of India.

- (b) Director of National Museum - New Delhi, Salar Jung Museum - Hyderabad, Prince of Wales Museum - Bombay, Indian Museum - Calcutta, Ashutosh Museum - Calcutta, Madras Museum - Chennai or Bharat Kala Bhavan - Varanasi.
- (c) Principal of a government school of Art.
- (d) Member of Art Purchase Committee of any of the Museums referred to in the sub clause (b), or of the Lalit Kala Academy

So far as jewellery is concerned, the procedure is almost settled with appointment of valuers and hence this category is well covered. The valuers appointed under Rule 8A (10) would generally be able to value these newly inserted categories as they fall under the term ‘Work of Art’

Business Vs Investment

Another issue is likely to crop up. Dealing in sale of antiquities will raise another issue as to whether the seller of an antique piece is an investor or a dealer in antiquities. This controversy is already on in case of shares and securities.

The Central Board of Direct Taxes instruction No. 1827 dated August 31st 1989 has been updated taking into consideration various judicial decisions.

In *CIT (Central) Calcutta Vs Associated Industrial Development Company Pvt. Ltd (82 ITR 586)* the Supreme Court observed the following:

“Whether a particular holding of shares is by the way of investment or forms part of the stock in trade is a matter which is within the knowledge of the assessee who holds the shares and it should, in normal circumstances, be in a position to produce evidence from its records as to whether it has maintained any distinction between those shares which are its stock-in-trade and those which are held by way of investment”.

Inclusion of items of antiquity in the category of capital asset by amending Section 2(14) (ii) will create confusion in the minds of tax authorities and assesseees as antiquity has not been defined in Income Tax Act and the meaning of archeological collections, drawing paintings, sculptures and work of art has to be imported with reference to the Antiquities and Art Treasures Act, 1972.

The Authority for Advance Rulings, AAR (288 ITR 641) referring to the decision of the Supreme Court has laid the following principles for determining whether the shares are held as investment or Stock in Trade:

- “(i) Where a company purchases and sells shares, it must be shown that they were held as stock-in-trade and that the existence of the power to purchase and sell shares in the memorandum of association is not decisive of the nature of transaction;
- (ii) The substantial nature of transactions, the manner of maintaining books of accounts, the magnitude of purchases and sales and the ratio between purchases and sales and the holding would furnish a good guide to determine the nature of the transactions;
- (iii) Ordinarily the purchase and the sale of shares with the motive of earning a profit would result in the transaction being in the nature of trade/adventure in the nature of trade; but where the object of the investment in shares of the company is to derive income by the way of dividend etc then the profits accruing by change in such investment (by sale of shares) will yield capital gain and not revenue receipt”.

Taking a cue from the above principles, one can apply the same in case of purchase and Sale of Antiquities.

However, in the case of Antiquities it won't be difficult to ascertain whether antiquities are held as investment or as stock in trade. Under the Antiquities and Art Treasures Act, 1972 it is mandatory to register the antiquities if these are for over hundred years and its sale needs a license (section 5 and section 14 of the said Act). The frequency of transaction and the motive of the assessee so also its treatment in his books can indicate whether the purchase and sale is dealing in antiquities or investment. However, this area can lead to litigation unless specific guidelines are issued by the CBDT.

Application of Section 56(vi) to Gifts of These Antiquities

Gift of antiquities to any one will not attract Income Tax in the hands of the Donee as the gift being in kind, provisions of section 56(vi) will not be applicable.

Conclusion

In conclusion, inclusion of items of antiquity in the category of capital asset by amending Section 2(14) (ii) will create confusion in the minds of tax authorities and assesseees as antiquity has not been defined in Income Tax Act and the meaning of archeological collections, drawing paintings, sculptures and work of art has to be imported with reference to the Antiquities and Art Treasures Act, 1972. The cost with reference to the articles covered is unascertainable so also its fair market value will create number of problems. Question might arise about the authenticity of the inherited articles by the family and its veracity etc will be difficult. There are a number of grey areas in so far as the authenticity of its valuation and department will have to depend on valuers certificates as there is no uniformity of articles with every article of antiquity having different quality aspects depending on their age and authenticity. The department will, therefore, have to depend on the valuations made by valuers qualifying under the Wealth Tax Act. □

CPE Advisory

8. Unstructured CPE Learning Activities

8. A Introduction

8.A.01 The CPE learning activities, which are eligible for CPE Credits are divided into Structured and Unstructured Learning Activities (ULAs). This Advisory is meant as guidance and direction to the members who want to avail CPE Credits through ULAs

8.A.02 As per the Statement on CPE, the indicative list of Unstructured CPE Learning Activities that are eligible for CPE Credit is as follows:

- Web-based learning modules (e-learning)
 - e-learning is “instructional content or learning experiences delivered or enabled by electronic technology”. Electronic technology encompasses everything from Computer-Based Training (CBT), to compact disks (CDs), to Web-based applications.”
- Self-learning modules and courses (use of audiotapes, videotapes, correspondence courses, computer based learning programmes)
- Reading and Individual Home Study
 - Reading and Individual Home Study may constitute reading articles in the Journal, ‘The Chartered Accountant’ of the Institute, reading technical, professional, financial or business literature.
- Group or bilateral discussion on technical issues
- Acting as visiting faculty or guest faculty at the various Universities/Management Institutions/Institutions of National Importance
- Participation in CPE Teleconferencing Programmes without the supervision of the POU
- Providing solutions to questionnaires/puzzles available on Web/Professional Journals
- Internal Training Programmes being organised by firms of Chartered Accountants having seven or more partners

8.A.03 The Members would be required to fulfill the

documentation requirements as mentioned in this advisory, to avail respective CPE Credits. The Members would also be required to maintain and retain proper records of ULAs undertaken by them, i.e., Type of unstructured activity, topic, date and the number of CPE hours requested by them.

8.A.04 The members are required to submit a Self-Declaration Form to the concerned Decentralised Office once in a year to avail the CPE Hours Credit for the ULAs undergone by them.

8.B Basic Components of Unstructured Learning Activities (ULAs)

8.B.01 The members are advised to devote time to ULAs in continuity so as to maximise the benefits of learning activities.

8.B.02 The topics studied should be of relevance to the work profile of member/s and/or Chartered Accountancy Profession. The indicative list of topics is given in the CPE Calendar, which is announced by the CPE Committee every year.

8.B.03 The study material used for ULAs like Self-Learning Modules/Courses and Individual home study etc., should be of adequate standards and comprehensive in nature.

8.C Self-Declaration Form

8.C.01 The Self Declaration Form has to be completely filled in and signed by the members.

8.C.02 The Members are required to indicate the time devoted to the ULAs in the areas that are related or relevant to the profession, in the Self Declaration Form.

8.C.03 A blank Self-Declaration Form would be sent to the members along with the Membership Fee Circular. The same could also be downloaded by the members from the CPE Portal.

8.D Submission of Self-Declaration Form by the member

8.D.01 The members are required to submit their Self-declaration in the form enclosed as **Annexure-I**, once in a year before 31st May, to avail the CPE Hours Credit for the ULAs undergone by them in the previous year. These forms would have to be submitted

to the concerned Decentralised Offices. The members could also submit the same to the Sub-Decentralised Offices for onward submission to the concerned Decentralised Offices.

the CPE Portal under the Head 'Unstructured Learning Activities (ULAs)'. The necessary provision for recording the CPE Hours for the ULAs has been provided on the CPE Portal.

Annexure I

8.E Monitoring and Recording of CPE Credit Hours of Unstructured Learning Activities (ULAs)

Self-Declaration Form to avail CPE Hours Credit for Unstructured Learning Activities For the Calendar Year _____

8.E.01 The Decentralised Offices of the Institute are entrusted with the task of monitoring and recording the CPE hours Credit for the ULAs. On the basis of Self Declaration submitted by the Members, the concerned Decentralised Offices would enter the CPE Hours Credit on

Name:
Membership No.:
Address:
Contact No.
E-mail id:

Details of Unstructured Learning Activities Undergone

Type of ULAs	Particulars	Details		
		Topic	Date	Requested CPE hours
Web-based	Web-based Learning modules			
Self-learning	Self-learning Modules and Courses (1) Audio-tapes/video-tapes. (2) Correspondence courses. (3) Computer based learning programmes			
Home study	Reading and Individual Home Study			
Discussion on Technical Issues	Group or Bilateral Discussion on Technical Issues			
Acting as Faculty	Acting as visiting faculty or guest faculty at various Universities/Management Institutions/Institutions of National Importance			
Teleconferencing Programmes	Participation in CPE Teleconferencing Programmes without supervision of the POU			
Questionnaires/Journals	Providing solutions to questionnaires/puzzles available on Web/Professional Journals			
Internal Training Programmes	Internal Training Programmes being organised by firms of Chartered Accountants with seven or more partners			
Total CPE Hours requested				

Undertaking

I, _____, (name of the Member) hereby declare that I have undergone the unstructured learning activities as indicated by me in this form above.

I also confirm that the information given by me for claiming CPE credit hours for each unstructured activity is correct.

Place:

Signature of the Member

Date:

Note: Members may annex a separate sheet if the given format is not sufficient for filling in complete details.

Notifications and Circulars

Significant Notifications/Circulars Issued During the Month of April 2008

A. DIRECT TAXES

1. **Circular No. 4/2008, Dated 28-4-2008**

The Central Board of Direct Taxes has through this circular has clarified that tax deduction at source (TDS) under sections 194-I of Income-tax Act would be required to be made on the amount of rent paid/payable without including the service tax.

The complete text of the above-mentioned circular can be downloaded from the following link: <http://law.incometaxindia.gov.in/TaxmannDit/DisplayPage/dpage1.aspx?md=1>

B. EXCISE

1. **Circular No. 867/5/2008-CX dated 04.04.2008**

has clarified that the provisions regarding Large Tax Payer Unit which were made applicable to Bangalore LTU vide *Circular No. 834/11/2006-CX dated 5.10.2006* have also been made applicable to Mumbai LTU subject to certain changes.

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-08/867-2008-cx.htm>

C. CUSTOM

1. **Circular No. 6/2008-Cus. dated 28.04.2008**

has been issued to prescribe the procedure to be adopted for refund of 4% Additional Duty of Customs in pursuance of Notification No.102/2007-Customs dated 14.9.2007.

The complete text of the above-mentioned circular can be downloaded from the following link:

<http://www.cbec.gov.in/customs/cs-circulars/cs-circulars08/circ06-2k8-cus.htm>

D. SERVICE TAX

1. **Notification No. 17/2008 ST dated 01.04.2008** has amended *Notification No. 41/2007 ST dated 06.10.2007*, which exempts

certain specified taxable services received by an exporter and used for export of goods. The following services received by an exporter and used for export of goods have also been exempted vide this notification subject to fulfilment of conditions specified therein:

- (i) Services provided by a custom house agent in relation to export of goods exported by the exporter.
- (ii) Services provided by a banking company or a financial institution including a non-banking financial company or any other body corporate or commercial concern, in relation to:
 - (a) collection of exports bills,
 - (b) export letters of credit such as advising commission, advising amendment, confirmation charges.
- (iii) Services provided by a commission agent, located outside India, and engaged under a contract or agreement or any other document by the exporter in India, to act on behalf of the exporter, to cause sale of goods exported by him.

The complete text of the above-mentioned notification can be downloaded from the following link:

<http://www.servicetax.gov.in/notifications/notfns-2k8/st17-2k8.htm>

E. CORPORATE LAWS

1. **Notification No. G.S.R. 113(E). dated 28.02.2008** - In exercise of the powers conferred by sub-section (1) of section 637 A of the Companies Act, 1956 (1 of 1956), the Central Government hereby makes the following amendments in the notification of the

Government of India in the erstwhile Ministry of Law, Justice and Company Affairs (Department of Company Affairs) number G.S.R. 555 (E) dated the 26th July, 2001 published in the Gazette of India, Part II, Section 3, Sub-section (i), dated the 26th July, 2001, namely: -

In the said notification, in clause (1), in sub-clause (d), in item (i), in the first proviso, for the Table, the following Table and the provisos shall be substituted, namely-

"TABLE"

Ratio of Net Owned Fund to Deposits (as on 31-3-2007)	Date by which the Company was required to achieve the prescribed ceiling of 1:20	Extended date by which the company has to achieve the prescribed ceiling of 1:20
(a) Upto 1:20	31.3.2007	31.3.2007
(b) More than 1:20 but up to 1:30	31.3.2007	31.3.2009
(c) More than 1:30 and above	31.3.2007	31.3.2010 – subject to the condition that the company achieves the ratio of 1:30 by 31.3.2009

Provided that the companies covered under (a) above should not accept fresh deposits or renew existing deposits if such acceptance or renewal leads to violation of the prescribed ratio and the companies covered under (b) and (c) should not accept fresh deposits or renew existing deposits till they achieve the prescribed ratio:

Provided further that no request for extension of date mentioned in the Table above shall be entertained from any company or their representative body and the continued violation of prescribed ratio would attract penal provisions including

de-notification of the defaulting nidhi companies".

[F. No. 4/2/2007-CL-VI]

Y.S. MALIK, Jt. Secy.

Foot Note: - Principal Notification was published in Gazette of India, Extraordinary, Part II, Section 3, Sub-section (i) vide Number G.S.R. 555(E) dated 26th July 2001 and subsequently amended vide numbers G.S.R. 308(E) dated the 4th April, 2002, G.S.R. 384(E) dated the 29th May, 2002, G.S.R. 408(E), dated the 31st May, 2002, G.S.R. 775(E) dated the 29th September, 2003 and G.S.R. 202(E) dated the 31st March, 2006. □

Important Announcement for Members

As per the Statement on CPE (as amended in August 2006), the CPE learning activities, which are eligible for CPE credit, are divided into Structured and Unstructured Learning Activities.

The Council at its 278th meeting held on May 13-15, 2008 has approved a new CPE Advisory on Unstructured CPE Learning Activities. This Advisory would serve as a guidance and direction to the members who want to avail CPE Hours Credits through Unstructured Learning Activities. The Advisory on Unstructured CPE Learning Activities has been hosted on the Institute website (www.icaai.org) and also on CPE Portal (www.cpeicai.org).

Legal Decisions¹

DIRECT TAXES²

1. **Is an assessee liable to deduct tax at source under section 194-H on commission paid by it to its agents (called concessionaires) who sell milk and milk products on behalf of the assessee?**

DMS, New Delhi vs CIT, New Delhi and others (DEL) 4 Feb 2008

On this issue, the High Court observed that, since –

- (i) the ownership of the milk booth was with the assessee who did not charge any rent for the use of the booths by the concessionaires;
- (ii) the unsold milk was taken back by the assessee from the concessionaires who were prohibited from selling any other product of any other brand;
- (iii) the sale collections of the concessionaires were collected in cash by the concerned clerk of the assessee on a daily basis,

There could be no doubt that the concessionaires were selling milk for and on behalf of the assessee and were being paid commission for it.

The Court observed that from the point of view of the definition of the word 'commission', as appearing in the Explanation to section 194-H, the transaction between the assessee and the concessionaires is a principal to agent transaction and not a principal-to-principal transaction. Hence, the assessee was under an obligation to deduct tax at source under section 194-H.

2. **Can the report of the Valuation Officer, called for during the pendency of the**

proceedings but received subsequent to the completion of assessment, be used as the basis of reopening an assessment under section 17(1) of the Wealth-tax Act?

CWT, Bombay City-I, Bombay vs Sona Properties Private Limited, Bombay (BOM) 07 Apr 2008

In the present case, report was called from the Valuation Officer during the pendency of the proceedings before the Assessing Officer. The report was received subsequent to the order passed by the Assessing Officer. Notice under section 17(1) of Wealth-tax Act, 1957 was, thereafter, issued.

The issue that arises for consideration is whether the Tribunal was justified in holding that the Assessing Officer was not justified in re-opening the assessment on the basis of the valuation report obtained by him subsequent to the date of completion of assessment.

The High Court observed that it is not open to the Assessing Officer to call for the report of the Valuation Officer after the assessment proceedings are completed and use that report to commence proceedings for reassessment. The law in such cases would be that the jurisdiction conferred on the Assessing Officer is limited to calling for the report when the proceeding is pending.

The Court further held that under section 16A, it is only in the event the Assessing Officer is of the opinion that the valuation report submitted to him by the registered valuer does not disclose fair market value, can the report of the Valuation Officer be called. Such exercise cannot be resorted to after the assessment is

¹ These cases have been compiled and contributed by www.Indlaw.com. In most of the cases, citation has not been given because these cases are yet to be published elsewhere. Readers are invited to send their comments on the selection of cases and their utility at eboard@icai.org. For the convenience of readers full text of these cases have been hosted on the website of the institute at the link: http://www.icai.org/icairoot/departments/editorial_board/dept_editorial_board_index.jsp?icaideptid=20

² Edited by CA. Mukta Kathuria, Secretary, Direct Taxes Committee of ICAI.

completed, as it would be without jurisdiction. A report called by an authority having no jurisdiction would be a nullity at law and consequently proceedings based solely on such report, considering the requirement of section 17, would be illegal and will have to be quashed. The report of the Valuation Officer in such circumstances cannot constitute "reason to believe" to reopen a concluded assessment.

3. **In a case where it was optional for doctors to give donations to a charitable trust running a hospital and only a percentage of the doctors approached had actually contributed, can exemption be denied to the trust on the basis that such contributions were forced contributions?**

DIT (Exemption), New Delhi vs Jaipur Golden Charitable Clinical Laboratory Trust, New Delhi (DEL) 3 Apr 2008

The assessee is a Charitable Trust running a hospital. The assessee had received donations from 61 consulting doctors who had opted to give donations of Rs.10,000/- each under certain terms and conditions. The Assessing Officer was of the view that donations received were not as per provisions of sections 11 and 12 and were forced contributions and therefore, treated the donations as "Income from Other Sources".

The issue that arises for consideration is whether the donations received by the assessee from doctors towards corpus holding is voluntary in nature.

The High Court observed that the donations received were voluntary contributions as it was optional for the consulting doctors to contribute donations, which was apparent from the fact that only 61 doctors opted for such arrangement out of 141 doctors working for the assessee. It only gave the option to give or arrange donations in case he wants less deduction from the professional fee payable to him. The donations were given by the doctors voluntarily and without any force. There-

fore, the action of the Assessing Officer in holding that donations received were forced donations was not justified.

4. **Can depreciation under section 32 be denied in respect of machinery, which has not remained idle for the entire previous year?**

DCIT, Ahmedabad vs N.K. Industries Limited (SC) 22 Apr 2008

In the present case, the main contention on behalf of the Department is that having regard to the scheme of the Income-tax Act, 1961 and, particularly, the concept of "block of assets", actual use is the only requirement, apart from ownership, for allowance of depreciation under section 32.

The Supreme Court held that the Tribunal had examined the statements of certain witnesses and after analysing the material on record; it had come to the conclusion on facts that there was nothing to show that the machinery, namely, expellers remained idle for the entire period.

The Apex Court held that it was not necessary to go into the larger question of law regarding the connotation of the word "used" appearing in section 32 in view of the decision by the Tribunal.

Indirect Tax ³

Excise & Customs

1. **Whether oil rigs engaged in operations in the exclusive economic zone/continental shelf of India, falling outside the territorial waters of India, are 'foreign going vessels' as defined by s. 2(21), Customs Act, 1962, and are entitled to consume imported stores thereon without payment of customs duty in terms of s. 87, Customs Act, 1962?**

Aban Loyd Chiles Offshore Limited and Another vs UOI and Others (SC) 11 Apr 2008

The Appellants are engaged in drilling operations for exploration of offshore oil, gas and other related activities under

contracts. The drilling operations are carried on at oil rigs/vessels, which are situated outside the territorial waters of India. Until around November, 1993, the Appellants, and all other similarly situated companies which were engaged in oil and gas exploration and exploitation were permitted to transship stores to the oil rigs without levy of any customs duty regardless of the fact whether oil rigs were operating within a designated area or non-designated area.

The Supreme Court observed that the principle underlying under ss. 86 and 87 is that the stores are consumed on board by a foreign going vessel. If the so-called foreign going vessel is located within a territory over which the coastal State has complete control and has sovereign right to extend its fiscal laws to such an area with or without modifications and the stores were consumed in the area to which the Customs Act has been extended, reference or reliance to the vessel being a foreign going vessel shall be of no consequence and the customs duty would be leviable as the goods are consumed within the territory to which the Customs Act has been extended as per the Maritime Zones Act, 1976 and the International Convention 'UNCLOS, 1982.

The Court further observed that the fact that the stores are unloaded and consumed within the maritime boundary or within the limit of Customs Act, s. 12 will be attracted as it would be construed that there would have been an import within the territory of India to which the Customs Act applies.

The Court held that as the goods were being taken to a territory, which would be deemed to be a part of the territory of India though the goods have left the territorial waters, the same would be eligible to levy of duty when they are taken and consumed within the deemed territory of India. There would be no customs duty or any other duty levied while the goods are in transit to the deemed territory of India by any other country although they have gone out of the territorial waters of India.

The Court dismissed the appeals.

2. **What would be the assessable value of the captively consumed goods?**

C.C.Ex., Jaipur vs Scan Synthetics Limited (SC) 28 Feb 2008

The respondent-assessee is engaged in the manufacture of textured yarn-grey yarn as well as dyed yarn

³ Edited by Ms. Ruchika Sabharwal, Executive Officer, Indirect Taxes Committee of ICAI.

falling under Chapter 54 of the first schedule to the Central Excise Tariff Act, 1985. According to the Revenue, the grey textured yarn was used captively in the manufacture of dyed yarn and the assessee had undervalued the price of the grey textured yarn by deducting certain amount claimed to be the dyeing charges from the price of the textured dyed yarn in order to evade payment of duty.

The Supreme Court held that the assessable value of the captively consumed grey yarn would be on the basis of the price at which the grey yarn was sold by the assessee to unrelated buyers in wholesale at the factory gate. The assessee had produced a number of invoices showing the sale to such independent buyers.

The Appeal was dismissed.

Note: This case law is based on old section 4 of the Central Excise Act, 1944.

Service Tax

3. **Whether refund would be admissible without examining the applicability of principles of unjust enrichment as laid down under the provisions of section 11(B)(2) of the Central Excise Act, 1944.**

CST, Bangalore vs Standard Chartered Bank (KAR) 24 Jan 2008 [2008 (10) STR 6]

The respondent is a banking institution. The respondent filed an application for refund of excess Service tax paid on the ground that the Service tax paid by the assessee has not been recovered from its customers. The refund application filed by the assessee has been rejected by the Original Authority on the ground that the assessee has produced only the compact disc to show that the assessee did not recover the amount from its customers and the compact disc does not reveal the full transaction.

The High Court observed that on facts both the authorities have held that the refund claim made by the assessee sat-

isfy the grounds to allow the refund. Therefore, it is a question of fact and not a question of law.

The Court observed that if the assessee was unable to recover the tax from its customers/the assessee cannot be made to pay the service tax in excess and if such refund is asked, the claim of the applicant can not be considered as unjust and it is a just money which the assessee is entitled since the same was paid by the assessee in excess.

The Court rejected the Appeal.

4. **Whether service tax is payable on the charges collected for leasing out hoardings to advertising agencies?**

Shriji Ads vs CST, Chennai (CESTAT) 14 Jan 2008 [2008 (13) VST 54]

The appellants are engaged in rendering advertisement service. In addition to displaying advertisements, the appellants also leased out hoardings to its associates who undertook the activity of displaying advertisements. The demand has been raised on the appellant for leasing out hoardings.

The CESTAT observed that the appellants are liable to pay service tax on the charges collected for leasing out hoarding to advertising agencies who exhibited publicity material and collected charges from their clients. However, if service tax is paid by such advertising agencies on the gross value including cost towards hoarding for exhibiting advertisements from their clients, there was no need for agencies like the appellants also to pay service tax for leasing out the hoardings. However, as the clients of the appellants are advertising agents registered with the department as assesseees and had paid the service tax due was not established before the lower authorities by the appellants.

The CESTAT remanded the matter to the original authority for taking a fresh decision in the matter. □

Disciplinary Case

Summary of a disciplinary case - The Council of the Institute of Chartered Accountants of India Vs. B.K. Kurhade¹ (Chartered Accountants Reference No.1 of 1996) – decided on 09.08.2004 by the High Court of Judicature at Bombay under Section 21(6) of the Chartered Accountants Act, 1949.

Brief Facts of the Case

The Jt. Director of Industries, Mumbai, (hereinafter referred to as 'Complainant') filed a complaint under Section 21 of the Chartered Accountants Act, 1949 (hereinafter referred as the 'Act') to the Institute of Chartered Accountants of India (hereinafter referred to as 'Institute') alleging that Shri B.K. Kurhade (hereinafter referred to as 'Respondent') had certified information of past consumption, production, etc. in respect of import applications for the licensing year 1987-88 by twelve (12) SSI units located in Ahmednagar district which certifications are prima facie incorrect as some units were found on subsequent investigation to be either not working regularly or had not maintained required consumption etc. record or did not require or could not use the raw material applied for in their actual manufacturing process even though previous consumption had been certified by the Respondent.

The Council of the Institute prima facie opined that the Respondent was guilty of professional and/or other misconduct and referred the case to the Disciplinary Committee for enquiry. The Disciplinary Committee after recording the evidence and hearing the submissions made on behalf of the parties came to the conclusion that the Respondent was guilty of professional misconduct within the meaning of Section 21 read with Section 22 of the Chartered Accountants Act, 1949 and Clauses (7) and (8) of Part I of the Second Schedule to the said Act. The Council considered the report of the Disciplinary Committee along with the written representations of the parties and the oral submissions made by the Complainant and found that the Respondent was guilty of professional misconduct within the meaning of Section 21 read with Section 22 of the Chartered Accountants Act, 1949 and Clauses (7) and (8) of Part I of the Second Schedule to the said Act and recommended that the name of the Respondent be removed from the

Register of Members for a period of two years. As required under Section 21(5) of the Act, the matter was referred to the High Court of Bombay with the recommendations of the Council.

The judgement of the Division Bench of High Court of Bombay comprising of Hon'ble Mr. Justice R.M. Lodha and Hon'ble Mr. Justice J.P. Devadhar is summarised below: -

Decision of the Hon'ble Court

The Hon'ble Court observed that the respondent has not chosen to appear before us despite service. Even from the written statement filed by the respondent before the Disciplinary Committee, there appears to be no serious challenge that the certificates issued by the respondent certifying the consumption figures of the 12 small-scale units were not correct. It is, thus, clear that the respondent issued the certificates of consumption by the 12 SSI units without proper verification. The due care and caution expected of the respondent before issuance of the said certificates was wanting. The fact that the certificates issued by the respondent in respect of 12 small-scale industries units were incorrect is amply established. The respondent did not discharge his professional duties responsibly in issuance of consumption certificates and as a result thereof, those SSI units could get the import licences. It is not in dispute that the Joint Chief Controller of Imports and Exports had imposed a penalty of Rs. 2,000/- on the respondent under Imports and Exports Control Act, 1947 and Imports Control Order, 1955. In this view of the matter the finding of the Disciplinary Committee that the respondent was guilty of professional misconduct and the acceptance of the said finding by the Council cannot be faulted.

On overall consideration of the matter, the Court upheld the findings of the Disciplinary Committee and held as follows:

(i) The finding recorded by the Disciplinary Committee and concurred by the Council that the respondent is guilty of professional misconduct is accepted, (ii) The punishment recommended by the Council is modified and we order that the name of respondent shall be removed from the Register of Members for a period of three months. □

¹For full text of the judgement please see:-
Disciplinary Cases Vol. VIII, Part 1, p. 585-608

Capitalisation/decapitalisation of exchange loss/gain.

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

A. Facts of the Case

1. A public sector company is owned by the Government of India coming under the administrative control of the Ministry of Coal. The company is engaged in the business of production of lignite and generation of power. The present capacity of the mine is 24 million tonnes per annum and 2490 MW of thermal power generation. The company is in the phase of expansion from 24 million tonnes to 30.6 million tonnes of lignite and from 2490 MW to 3240 MW of power generation.

2. The company has entered into an agreement for a foreign currency loan, in respect of its expansion projects requirements for 50 million Euros under the External Commercial Borrowing route with XYZ Bank, Singapore. During the year 2006-07, the company has drawn 34.58 million Euros in two tranches on various dates. The loan balance has been reinstated with the exchange rate prevailing on 31st March 2007. As on 31st March 2007 there was a reduction in the exchange rate for Euro, thereby the liability of the loan has been reduced by Rs.2.76 crore. The credit effect has been given in the profit and loss account under the head 'other income' and the same has been transferred to the expenditure during construction as abatement since the projects for which the loan has been drawn are in the construction stage.

3. The querist has informed that the entries made in the company's books of account in this regard are as follows:

	Dr.	Cr.
Foreign Currency Loan Account	xxxx	
Other Income -Exchange Rate Variation (P&L A/c)		xxxx
(Income accounted for on account of exchange rate variation on foreign currency loan)		
Expenditure Transferred to Capital Account (P&L A/c)	xxxx	
Capital Work-in-Progress (Foreign Exchange rate variations abated to Capital		xxxx

Work-in-Progress during the period of construction)

4. The querist has stated that as per the pre-revised Accounting Standard (AS) 11, 'Accounting for the Effects of Changes in Foreign Exchange Rates' (1994), the foreign exchange rate variation of the nature described above has been identified with the respective assets to which the loan pertains and capitalised or abated as the case may be. Further, according to the querist, this treatment is in line with Accounting Standard (AS) 10, 'Accounting for Fixed Assets'. The querist has referred to paragraph 9.3 of AS 10 which states as follows:

"Administration and other general overhead expenses are usually excluded from the cost of fixed assets because they do not relate to a specific fixed asset. However, in some circumstances, such expenses as are specifically attributable to construction of a project or to the acquisition of a fixed asset or bringing it to its working condition, may be included as part of the cost of the construction project or as a part of the cost of the fixed asset".

5. The querist has drawn the attention of the Committee to paragraph 5.1 of the Guidance Note on Treatment of Expenditure During Construction Period issued by the Institute of Chartered Accountants of India, which states as follows:

"5. Indirect Expenditure Incidental and Related to Construction

5.1... expenditure is that, for a running concern, it would be of a revenue nature. However, because the expenditure is incurred during the construction period and because during that period, the expenditure is indirectly related to construction and is incidental thereto, it should be capitalised as part of the construction cost."

The querist has stated that it may be noted that all revenue expenditures, such as salary and wages of the employees engaged in the construction, depreciation of the machinery used in the construction, interest on the loan taken for the project, stores & spares and other administrative expenditure incurred during the period of construction is being capitalised. Likewise any

income, such as interest on short term investment of the fund raised for the project, test and trial run revenue and other miscellaneous receipts are abated to the capital cost of the project.

6. The querist has stated that as per paragraph 13 of Accounting Standard (AS) 11, 'The Effects of Changes in Foreign Exchange Rates' (revised 2003), ***"Exchange differences arising on the settlement of monetary items or on reporting an enterprise's monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, should be recognised as income or as expenses in the period in which they arise..."*** Hence, the exchange rate variance is an item of income or expenditure as the case may be. Since this has been incurred during the period of construction, this should be either added or abated to the capital cost as the case may be.

7. The querist has further informed that the joint statutory auditors of the company in their audit report have commented upon the non-compliance of AS 11 stating that the non-recognition of the exchange fluctuation on foreign currency loan in the profit and loss account as per revised AS 11, has resulted in the understatement of current year's profit by Rs.2.76 crore and the understatement of capital work-in-progress by the same amount. The auditors' observation is based on the premise that AS 11 specifically states that foreign exchange rate variations should be recognised as income or as expenses in the period in which they arise and it is not concerned with capitalisation of the same during the construction period as in the case of borrowing cost as per Accounting Standard (AS) 16, 'Borrowing Costs', where the interest during the construction period is capitalised. The querist contends that the considered view of the company is that expenditure or income attributable to capital projects still in the construction stage should be added or abated to capital cost as incidental expenditure during construction. AS 11 should not be read in isolation and instead it should be read with AS 10 as well as with the Guidance Note on Treatment of Expenditure During Construction Period.

B. Query

8. The querist has sought the opinion of the Expert Advisory Committee on the issue as to whether the exchange rate variations on the foreign currency loan taken/foreign currency liability incurred for the project, during the period of construction should be capitalised or abated, as the case may be, as incidental expenditure during construction.

C. Points considered by the Committee

9. The Committee wishes to state at the outset that the opinion given hereinafter is on the facts of the query as stated above.

10. The Committee notes paragraph 9.3 of AS 10 as reproduced by the querist in paragraph 4 above and paragraph 21 of AS 10, which states that ***"the cost of a self-constructed fixed asset should comprise those costs that relate directly to the specific asset and those that are attributable to the construction activity in general and can be allocated to the***

specific asset". The Committee notes that in the context of interest, AS 16 lays down the principles with regard to which borrowing costs should be considered as attributable to the construction activity¹. With regard to the issue raised by the querist, the Committee notes that paragraph 4(e) of AS 16 considers that the exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs, are regarded as the borrowing costs for the purpose of that Standard.

11. In the context of the issue raised by the querist, the Committee also notes from paragraph 6 of AS 11 (revised 2003), that exchange differences arising under paragraph 4(e) of AS 16 are excluded from AS 11 (revised 2003).

12. The Committee notes that paragraph 4(e) of AS 16, as notified by the Central Government under the Companies (Accounting Standards) Rules, 2006, provides that borrowing costs include exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. The Committee further notes that the 'Explanation' to the said paragraph provides as below:

"Exchange differences arising from foreign currency borrowings and considered as borrowing costs are those exchange differences which arise on the amount of principal of the foreign currency borrowings to the extent of the difference between interest on local currency borrowings and interest on foreign currency borrowings. Thus, the amount of exchange difference not exceeding the difference between interest on local currency borrowings and interest on foreign currency borrowings is considered as borrowings costs to be accounted for under this Standard and the remaining exchange

difference, if any, is accounted for under AS 11, The Effects of Changes in Foreign Exchange Rates. For this purpose, the interest rate for the local currency borrowings is considered as that rate at which the enterprise would have raised the borrowings locally had the enterprise not decided to raise the foreign currency borrowings."

Thus, the Committee notes that exchange loss on foreign currency borrowings is capitalised to the extent described above.

13. With respect to the foreign exchange gain arising on the foreign currency borrowings, the Committee is of the view that the same should be reduced from the cost of the fixed asset to the extent the exchange loss has been capitalised as per the provisions of paragraph 4(e) of AS 16. Any excess exchange gain should be accounted for as income for the year in which the same arises. Since borrowing costs can be capitalised only with respect to a qualifying asset as per AS 16, the Committee is further of the view that the decapitalisation can be done only during the period of construction of the asset, i.e., only with respect to a qualifying asset as per AS 16.

D. Opinion

14. On the basis of the above, the Committee is of the opinion that foreign exchange loss on the foreign currency loan can be capitalised only to the extent as envisaged under paragraph 4(e) of AS 16. Any excess exchange loss should be expensed in the profit and loss account. The exchange gain with respect to a qualifying asset under AS 16 can be adjusted to the cost of the fixed asset only to the extent exchange loss was capitalised under paragraph 4(e) of AS 16. The exchange gain in excess of such adjustment should be treated as income in the profit and loss account of the year in which the same arises. □

¹ The Committee notes that the portion of paragraph 20 of AS 10 related to capitalisation of borrowing costs was withdrawn on AS 16 coming into force.

Notes:

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 Compendium of Opinions containing the Opinions of Expert Advisory Committee has been published in twenty-five volumes, which are available for sale at the Institute's office at New Delhi and its regional council offices at Mumbai, Chennai, Kolkata and Kanpur.
3. Recent opinions of the Committee are available on the website of the Institute at URL: http://www.icai.org/icairoot/resources/resource_index.jsp

The IC reporting practices in our country, of whatever magnitude and relevance these are, fall either in the mandated or voluntary categories. The ones of mandated types emanate from the statutes, the regulations of authorities thereunder, mandatory disclosure requirements of accounting bodies. The ones of voluntary types are related to human capital, relational capital or structural capital.

Mandated Reporting Practices

The most obvious document used, and referred too, for making IC reporting is an annual document used by the entities for communication to stakeholders. However, currently many other mediums or documents are either prescribed or used or gaining fancy of business entities or regulators to make reflections on the drivers of business valuations. A reference to an essential fact in this regard is imperative, however, at the beginning itself. Even the most of mandated reporting practices only require some factual statements that possibly may lead to some kind of inferences by the users as to qualitative intellectual resource possessed by the respective business entity. There are hardly any requirements that enable quantification, measurement and reporting of the intellectual capital.

One may also note with care that these mandated practices in the country not necessarily require disclosure of intellectual capital related information as part of financial statements only. Many of such requirements are part of board of directors’ responsibility enshrined in statutes. It is a worthwhile exercise to have a look into mandated requirements.

(a) Directors’ Report Under Section 217: The Indian Companies act 1956, among others, cast a very onerous responsibility on the board of directors to attach to every balance sheet laid before a company in general meeting, a report with respect to issues specified in section 217. Sub-section 2A to this section requires a statement showing the name of every employee of the company drawing remuneration exceeding the limit prescribed from time to time. Other than including a statement of the names of such employees, companies (particulars of employees)

rules, 1975, issued under this section require such statement to include particulars like age, qualification experience, previous employment etc.

(b) Accounting standards on intangible assets: AS 26 deals with accounting of intangible assets and is mandatory in nature. It deals with a large number of amounts expended on items that in all possibility lead to creation of intellectual capital. In line with the limitation of the historical accounting to capture measurement of intellectual capital, the standard in large proportion discourages amounts expended towards ‘intellectual capital generation efforts’ to qualify as an asset and in a way acts as a counter force to intellectual reporting metrics. The statement, however, allows a part of amount expended on generation of intellectual capital to be captured in the financial statements. Following table should explain the proposition.

S.No.	Requirement of the Statement	Impact
1	<p>Recognition based on negative rather than positive parameters:</p> <p>Clause 55 of the statement provides for expenditure on intangible item should be recognised as an expense when it is incurred unless:</p> <p>(a) it forms part of the cost of an intangible asset that meets the recognition criteria given in paragraph 19 to 54 of the statement, or</p> <p>(b) the item is acquired in an amalgamation in the nature of purchase and cannot be recognised as an intangible asset.</p>	<p>Barring in the circumstances amounts spent on intangible items to be recognised as an expense.</p>

2	<p>R e s t r i c t i v e definition:</p> <p>In the statement intangible asset is defined as an identifiable non-monetary asset, without physical substance, held for use in the production or supply of goods or services, for rental to others or for administrative purposes.</p> <p>The definition of asset is further restrictive and is defined to mean as a resource:</p> <p>(a) controlled by an enterprise as a result of past events, and</p> <p>(b) from which future economic benefits are expected to flow to the enterprise</p>	<p>In absence of identifiability and control of the enterprise on the amount expended on intangible items, the financial statements are unable to capture their value though the criterion of future economic benefits and arising from past events are very well met.</p>
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of drivers, interplay of processes and intellectual capital and the likely shift in the trends. For, from users' point of view, its perceived veracity is phenomenally high, compared to filtered, un-authenticated, unconfirmed and unofficial sources, coming from highest seat of governing; open to scrutiny and self-correction over a period of time. They find in these disclosures a useful and meaningful observatory through and by which some answers and explanations to immediate, imminent and impending business valuations can be sought.

Though the usefulness of the voluntary reporting practices is unquestionable; the prevalent practices being followed the world over are not free from grey areas. These voluntary practices have no common grammar and language. The voluntary reporting, though welcome, may have limited usefulness on account of presence or absence of following factors:

- No common Glossary
- No Common emphasis
- Skewed information threat
- No third party verification
- High Transaction cost
- Horizontal and vertical comparison improbability
- Consistency questions

Voluntary Reporting Practices

No doubt, intellectual capital reporting practices in developed nations are relatively and fairly entrenched. But reporting in these countries share one thing in common with ours; these are as unstructured and voluntary as we have in India.

In the absence of any formal reporting structure, whatever is communicated informally by entities, needs to be welcomed. It is because from entities point of view, it is a genuine manifestation of and an honest attempt to share (a) The identified drivers that move the entity up in the value curve (b) information about the processes employed by the entity in creation and management of knowledge to accomplish those drivers (c) statement of account of intellectual capital creation as a result of knowledge creation and management processes used and (d) evaluation

As the saying goes, the proof of the pudding is in eating. Nothing can offer a better insight into reporting practices in India, than sampling the entities and analysing what they actually put on display and cull out some useful patterns and set of inferences. These patterns and inferences then can gainfully be tested against some eminent published works both in developed and developing economies to fathom similarities and dissimilarities. To complete this work, one would require a tremendous data, analysis, evaluation and presentation. Understandably this is beyond the scope of one paper and would have to be worked upon in large measure over some time.

But it would be appropriate for the purpose of this article to take first step in the journey. To

pick up the thread, one can refer to the current international practices and trend. Then some sample extracts of reporting done by Infosys technologies will help throw light on underlying thinking at least by leading corporates in India.

Current Practices and Trends in Reporting World Wide

The inherent limitations of the historical reporting to capture key and dominant value drivers were realised in the developed world fairly long ago. Understandably, they have lead on both fronts— research and implementation. Reference to pioneering works takes one to stupendous work of special task force on Enhanced Business Reporting constituted by American Institute of Public accountants. Lest there may be a misunderstanding, one should clarify that work on enhanced business reporting is an effort to enhance the quality of business reporting in aggregate and not necessarily confined only to intellectual capital.

1. Need of EBR (Enhanced Business Reporting): Enhanced business reporting committee of the American Institute of public accountants established a task force in November 2003. The objective and scope of the task force was to develop a set of sample reports that articulate some of the potential approaches to enhanced business reporting with an objective to prime the debate concerning enhancement to business reporting. In the view of the task force, the enhancement of business reporting is enhanced when they include disclosures that provide information about the underlying relationship between variety of internal and external value drivers and the company performance, sufficient to allow stakeholders to obtain a reliable understanding of past performance, current situation and a reasonable basis on which to predict future results.
2. Criterion for determining the scope of

EBR: The task force recognised the following criterion for determining the scope of EBR.

- Improves the quality of decision making in capital markets.
- Value added to users, preparers and the information chain, exceeds costs associated with preparation, disclosures and analysis.
- Comparable across time frames.
- Does not significantly harm a company's competitive position.
- Should be within management's expertise to provide.
- Applicable internationally.
- Comparable across companies.
- Suitable for timely measurement, reporting and analysis.
- Can be measured with acceptable degree of accuracy.

The task force felt that last four of the criteria though desirable should be explored further.

3. Design of the reports generated: The task force felt that sample reports generated were designed to include a demonstration of:
 - The potential scope of enhanced business reports; i.e., example of subject matter that may be considered for inclusion in the report.
 - Sample disclosures for a number of industries.
 - Wherever applicable, a range of alternatives for reporting on a particular element e.g.; a high degree of specialty regarding the components of a strategy disclosures vs. an open framework with general guidelines.

- Performance measures.
 - The application of XBRL and other technologies for business reporting.
 - The potential benefits for stakeholders.
 - Commercial opportunities responsive to stakeholders' needs.
4. Summary of themes covered in the sample reports: The Task Force has compiled two "Sample Enhanced Business Reports" (Linton Solutions, Inc. and KNZ AG) through which it has articulated the potential solutions summarised above and a variety of other related ideas.
 5. Further work: The Task Force recommends the following topics be subject to further study and consideration:
 1. Off Balance Sheet transactions and relationships — Potential claims on the cash flows of a business arising from relationships with third parties, but which do not appear as liabilities on the balance sheet. Further thought needs to be given as to how best to clearly communicate such exposures. In particular, where these potential claims are triggered by certain variables meeting or exceeding certain predefined values, consider ways of highlighting these "trigger points" together with the impact on cash flows that result.
 2. Input from attorneys and Regulators is needed on at least two points:
 - (i) Disincentives to disclose — In the United States, at least, the security laws present a disincentive for preparers to include anything that goes beyond the minimum requirements. For example: Including forward looking statements in a press release rather than in a 10-k filing allows the preparer to avoid the

potentially greater penalties associated with misleading statements appearing in public filings. (Despite the safe harbor provisions contained in the securities law relating to such disclosures.)

(ii). Summary information — Presentation of summary information presents a potential legal problem. Since a summary, by definition, requires that the preparer omit certain information, there is a risk that the reader, who relies on the summary without reading the detail, may be harmed. The solution would seem to be to ensure that the most important information be included in the summary. For example, when purchasing a car, prospective buyers are presented with summary level information of the car's features, and when reading the instruction manual, certain safety warnings are highlighted. However, the prospective purchaser is not presented with a comprehensive report containing all information about every component of the vehicle and nor would most buyers find such information relevant or useful.

3. Plain English — This objective is one that requires more careful thought. Some guidance would be useful on how a preparer might assess the extent to which they have complied with this objective. There is a natural tendency for preparers to slip into technical jargon and complex terminology, particularly at the more detailed levels of discussion. One solution might be to determine whether a "man in the street," or to quote an English legal term, "a man on the Clapham omnibus," would be able to properly understand what has been written. Where there is no avoiding the use of complex terms or jargon, an interpretation should be made available.

4. Information integrity attributes — Consider including integrity attributes

of business information to help internal and external users. These attributes could include an indication as to which control processes the information has been subject to in order to help the user determine the level of reliability of the information.

5. Ensuring quality analysis of results — Regulators are increasingly adding specificity to their requirements for management to analyse and discuss the business results for the period and its economic condition. However, there continue to be many companies who provide little insight in their analysis. One way to encourage improvements in this area is to develop and promote a set of generally accepted guidelines and corresponding taxonomy. This would ensure that the readers are provided with a sufficient degree of specificity. The capital markets (and potentially regulators) will appropriately reward and penalise accordingly.
6. Utilisation of Technology in Reporting — The paper medium substantially limits the detail, timeliness and richness of information disclosure. Research is needed on provisioning information close to real time (continuous reporting), providing highly dis-aggregated data, providing real-time assurance, and providing web access using rich database access delivery methodologies.

EBR Framework-2 Exposed

EBRC Framework Version 2.1

A. Business Landscape

A.1. Business Landscape – Summary

A summary of the key issues in the items below. This can be provided in lieu of a discussion of each category or can be omitted if each category is discussed specifically.

Management’s perspective on the macro-economic environ-

A.2. Economic ment in the countries and regions in which the company has operations including key factors such as GDP growth, interest rates, inflation rates, currency exchange rates.

Discussion of competitive environment in the industries in which the company operates including strategies, strengths and weaknesses of major competitors; customer preferences and trends; supplier capabilities, dynamics of supply and demand, and management’s view of the industry’s prospects.

A.3. Industry Analysis

Discussion of the key technologies and their trends which affect the company and all the members of its supply chain including competing technologies, intellectual property issues, and pace of technological innovation.

A.4. Technological Trends

Analysis of the major political issues in the countries where the company has operations including such things as potential shifts in power between “pro-business” and “anti-business” parties, trade policies and relevant pending legislation.

A. 5. Political

Discussion of legal cases and decisions, new regulations and regulatory actions that can affect the ways in which the company operates, including the way in which it delivers its products and services and which products and services it will be able to deliver in the future.

A. 6. Legal

Discussion of key environmental issues and concerns that are related to the company’s operations, the stakeholder groups actively involved in these issues and concerns, and what these

A.7. Environmental

groups are trying to accomplish and through what means.

Management's analysis of key demographic and lifestyle trends, social attitudes and norms, consumer preferences and media influences.

A. 8. Social

B. Strategy

A summary of the key issues in the items below. This can be provided in lieu of a discussion of each category or can be omitted if each category is discussed specifically.

B.1. Corporate Strategy—Summary

Management's description of its long-term vision for the company and the mission it sees the company has having with respect to all of the stakeholders it defines as relevant.

B.2. Vision and Mission

Management's perspective on the company's absolute and relative strengths in the context of its Business Landscape.

B.3. Strengths

Management's perspective on the company's absolute and relative weaknesses in the context of its Business Landscape.

B.4. Weaknesses

Management's perspective on the opportunities facing the company in the context of its Business Landscape.

B.5. Opportunities

Management's perspective on the threats facing the company in the context of its Business Landscape.

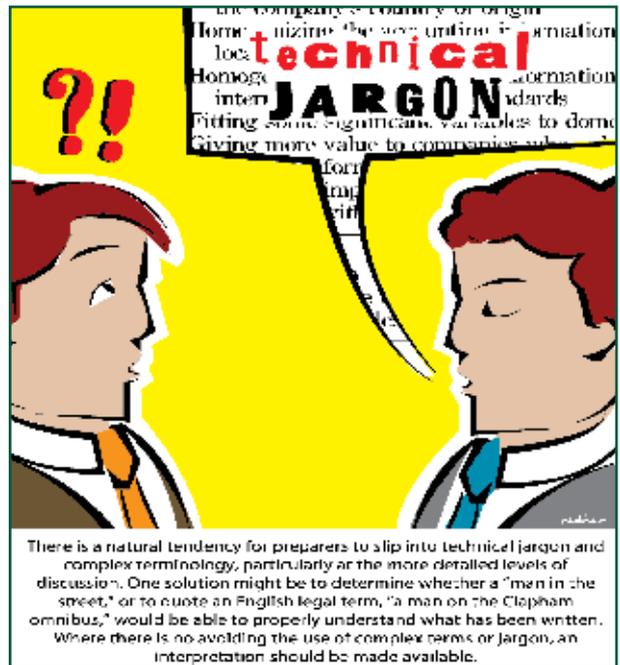
B.6. Threats

Statement of financial and non-financial goals and the objectives that must be accomplished to achieve them.

B.7. Goals and Objectives

Description of the company's overall corporate strategy, which sets the context for specific business unit strategies.

B.8. Corporate Strategy



B.9. Business Unit Strategies Description of the strategies for the company's major business units.

B.10. Business Portfolio Discussion of the relationships between the different business unit strategies such as vertical and horizontal integration, common customers, and shared distribution channels.

C. Resources and Processes

C.1. Resources and Processes—Summary A summary of the key issues in the items below. This can be provided in lieu of a discussion of each category or can be omitted if each category is discussed specifically.

C.2. Resource Form **Monetary a. Capital** Tangible monetary capital is reported on the balance sheet but monetary capital also has intangible aspects, identified by management, which affect the ability of a company to fund its operations and

		investments such as borrowing capacity/ access to capital, quality of earnings, the character and reputation of the company's major debt and equity investors and the stability of the shareholder base.				employees; these can be both tangible (e.g., patents, trademarks, copyrights, formulas and data bases) and intangible (e.g., employed but undocumented methodologies and processes).
C. 2. Physical capital	b.	Tangible physical capital is reported on the balance sheet but physical capital also has intangible aspects, identified by management, which affect its value, such as a plant location, plant adaptability, raw material accessibility and reliance on strategic resources		C. 2. Human capital	e.	Management's identification of any attributes of its workforce (both employees and contractors) that it regards as important; these can be both tangible (e.g., employment contracts) and intangible (e.g., education, skills and abilities, experiences, attitudes, and accomplishments).
C. 2. Relationship (Social) capital	c.	Management's identification of relationships with other organisations and third parties that it regards as important; these can be both tangible (e.g., contracts, license agreements, joint venture agreements, and alliances) and intangible (e.g., long-term relationships with no contractual basis and personal relationships).	C. 3. Develop Key Vision Processes and Strategy	a.	Description of the processes (possibly including benchmarking comparisons) by which the company develops its vision and strategy at the corporate and business unit levels, how it determines the appropriate overall business portfolio and the capital allocation process.	
C. 2. Organisational (Structural) capital	d.	Management's identification of organisational resources not reported on the balance sheet and that are independent of its em-	C. 3. Manage Internal Resources	b.	Description of the processes (possibly including benchmarking comparisons) used for managing internal	

- resources like financial, human capital, information technology, property and knowledge.
- C. 3. **Manage Products and Services**
 - c. Description of the processes (possibly including benchmarking comparisons) used for managing the design and development, marketing and delivery of products and services.
 - d. Description of the processes (possibly including benchmarking comparisons) used for managing external relationships with suppliers, customers, government and regulatory agencies, and NGOs.
 - e. Description of the processes (possibly including benchmarking comparisons) used for ensuring that the interests of shareholders and other stakeholders are properly represented and for managing risk on both a category and enterprise-wide basis.

D. Performance

D. 1. Performance—Summary

A summary of the key issues in the items below. This can be provided in lieu of a discussion of each category or can be omitted if each category is discussed specifically. For each category, the company can

provide segment information as appropriate.

D.2. GAAP-based

Discussion of outcomes on key GAAP-based measures such as revenues, earnings, and gross margins.

D.3. GAAP-derived

Discussion of outcomes on performance measures (including definitions) relevant to all industries which are based on but not defined by GAAP such as return on invested capital and revenue growth.

D. 4. Industry-based

Discussion of outcomes on key performance indicators (including definitions), which are commonly used in an industry, including both financial (e.g., sales per square foot in retail) and non-financial (manufacturing yield rates in semiconductors) metrics.

D. 5. Company-specific

Discussion of outcomes on key performance indicators (including definitions), which are specific to a company's strategy, including both financial (e.g., percentage of revenues from products introduced in the last three years) and non-financial (e.g., employee turnover) metrics.

D. 6. Capital market-based

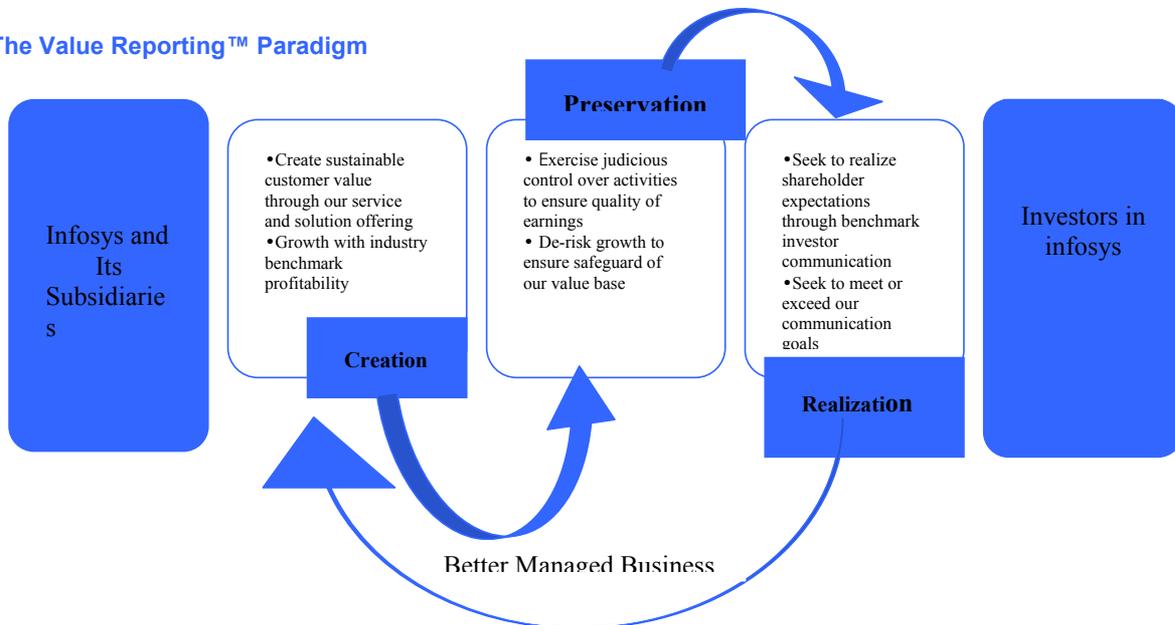
Discussion of outcomes on performance measures (including definitions), which are based on the company's performance in the capital markets such as total return to shareholders, debt ratings, and weighted average cost of capital.

Extracts From Reporting by Infosys

(Source annual report 2005-06)

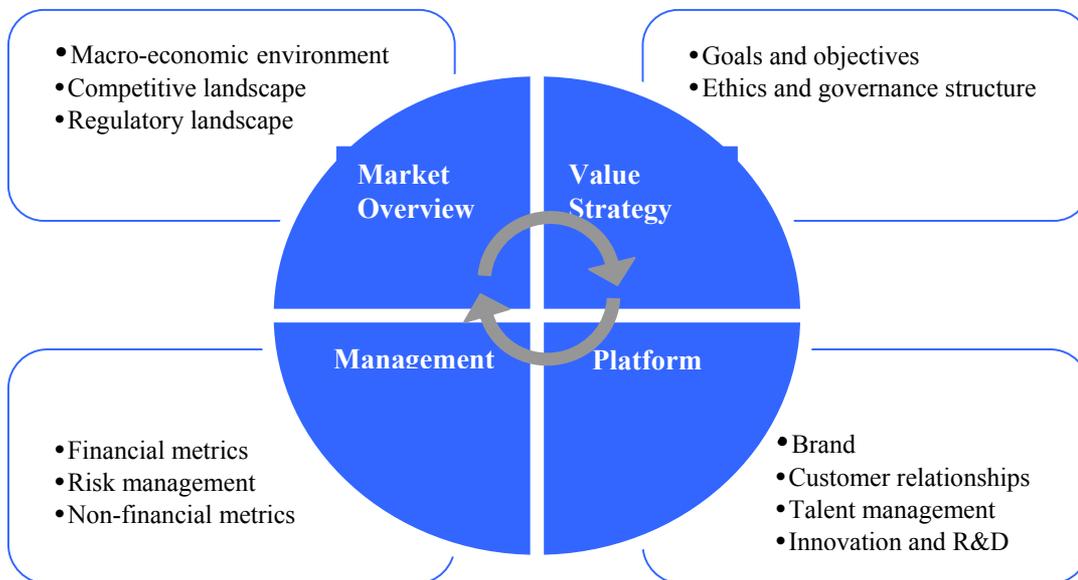
“Value reporting a view: At Infosys, we always believe that information asymmetry between management and shareholders should be minimised. Accordingly, The Value Reporting™ paradigm as we believe applies to Infosys as follows:

The Value Reporting™ Paradigm



We identified the need to provide a range of non-financial parameters early in our existence – before our Indian public offering in 1993.”

The Value Reporting™ Disclosure Model



Disclaimers and Road ahead

Two issues need to be highlighted and understood, while concluding the discussion. One, the reporting precedes and is replete with disclaimer as to the responsibility of the company for the actions or inactions of the users for the information which are absolutely voluntary aimed to serve informed and quality decision making. Second, it has ample message implicit and explicit in the report that though the company feels it has pioneered the reporting revolution in the country, but what is reported by it may not be necessarily the last word. A true revelation indeed! □



Seen here are Mr. Dmitry Yakovenko, President of the Institute of Professional Accountants of Samara Region and Mr. Yury Bodrov, Member of the Board with CA. Ved Jain, President, ICAI and Dr. Ashok Haldia, Secretary, ICAI; on the visit of delegation from the Professional Accountants Samara Region, Russia to ICAI on 2nd May, 2008.

Photograph taken at the specially designed Computer Training Programme for Senior Members inaugurated by CA. Ved Jain, President ICAI on 12th May 2008. Seen in the photograph from Left to Right: CA. V. Murali, Central Council Member, CA. Kashi P. Khandelwal, Central Council Member, CA. Sudhir Aggarwal, Chairman, NIRC, CA. Ved Jain, President, ICAI, CA. Uttam Prakash Agarwal, Vice-President, ICAI, and CA. Atul Bheda, Central Council Member, with the members who attended the programme.



Photograph taken at IFAC BRIC Forum attended by ICAI Dignitaries on 19th May 2008 in New York. Seen in the photograph from Left to Right: CA. Ved Jain, President, ICAI, Mr. Fermin Dell Valle, President of International Federation of Accountants, CA. Uttam Prakash Agarwal, Vice- President, ICAI and Ms. Maria Clara Cavalcante Bugarim, President, Conselho Federal de Contabilidade (Brazil).

Group photograph taken at the 15th CAPA Board meeting held at Hotel Radisson, Kathmandu, Nepal from 8th-10th May 2008.



Latest - At a Glance

Members

- Compendium of Opinions, Volume XXV has been released by the Expert Advisory Committee of the Institute.
- 'Accounting Standard (AS) 32, *Financial Instruments: Disclosures* has been issued by the Institute.'
- Exposure Drafts of Proposed Accounting Standards for Local Bodies (ASLB) on 'Revenue from Exchange Transactions' and 'Borrowing Costs' have been released.
- Next Personal Contact Programmes (PCPs) for the Post Qualification Course in International Trade Laws and World Trade Organisation will be held in two phases during July 1-15, 2008 and July 29 - August 12, 2008.
- New Chapter of the Institute has been set up at New York, U.S.A.

- New publications on 'Implementation Guide to SQC 1' and 'Background Material on Auditing and Assurance Standards' have been issued.

Students

- 5th National Convention of CA Students will be held on 9th -10th June 2008 at Maharana Pratap Auditorium, Vidhyashram School, Jaipur.
- CA Students Regional Conference will be held at Mumbai on 11th - 12th July 2008.
- 21st All India CA Students' Conference on the theme 'Discover Your Potential' will be held on 10th - 11th July 2008 at Dr. Vasant Rao Deshpande Sabhagruh Opposite MLA Hostel, Civil Lines, Nagpur.

ICAI NEWS

Chapter of the ICAI in New York

The Council of the Institute of Chartered Accountants of India has decided to set up a Chapter of the Institute in New York. The Contact address of the Chapter is as under: -

**New York Chapter of the Institute of Chartered
Accountants of India, 138-15 Franklin Ave,
Apt. # 105, Flushing, NY 11355, USA**

Members in New York desirous of becoming members of the Chapter may contact CA. Rakesh Jain (e-mail: jain_rakeshkumar@yahoo.com).

CLASSIFIEDS

4624 Delhi based CA firm requires fresh or experienced Chartered Accountants. Candidates should have audit or taxation experience. Contact M/s D.G. & Co., 403 Pratap Chambers, Gurudwara Road, Karol Bagh, New Delhi-05, Ph no. 011-28751295, email: dgco@bol.net.in.

4625 Mumbai based Chartered Accountants proprietorship firm interested in professional assignments in the field of Audit, (Companies, MVAT, Tax, Audit, Internal etc) Taxation (Direct & Indirect) on sub-contract basis. Contact 09869705362 or email mzulfika@yahoo.com

4626 Chandigarh based CA firm is looking for strategic alliance/merger/net working for assignments/sub-contracts/retainership with other CA firms in India. Contact: S.K.Bansal & Co., Chartered Accountants, Kothi No. 3193, Sector 28-D, Chandigarh. Email: skbansal_co@sify.com. Phone: 09876153193.

4627 Kolkata based CA Firm seeks professional work of all types from firms across the country on Assignment/Sub-contract/Retainership/Network basis. Contact: 09830758423, mmukerjee_company@rediffmail.com

4628 Delhi Based CA Firm Seek Professional Work on Assignment, Retainership and Contractual basis. Contact: 9811405663, 011 45091820, Email: munishgoyalca_23@rediffmail.com

4629 Delhi Based CA Firm Seeks Professional Work Specifically in the Field of International Transactions (FEMA) And Bank Finance Work on Subcontract, Assignment Basis. Contact: sunilrishabh@bol.net.in

4630 Kolkata based firm requires young CAs with DISA/CISA as Partner. Please send your CV and Proposals at: mampimana@yahoo.co.in

4631 MP (Indore/Ratlam) based CA Firm seeks work on partnership/

assignment/retainership/sub-contract/networking basis. Contact: camaheshji@yahoo.com

4632 Bangalore based CA firm is offering partnership to retired CAs on attractive terms. Contact K.G.M. Bhushan-09448515145, 080-25351863 or email id -kgmbhushan@gmail.com

4633 Chennai based ACA, willing to work on consultancy assignment/retainership/contractual basis. Contact 9444046276 or E mail at: swamimuscata@yahoo.com

4634 Required Qualified/Semi Qualified C.A. for our offices in NCR of Delhi. Contact: CA S.S. Mangla & Co. SCO-201, Shopping Centre, Sec-8, Faridabad Ph: 0129-2247275, 2303601, Fax-2240625, M: 9811110459.

4635 Ponraj & Co., a medium size Chartered Accountant firm at Chennai invites proposals from firms of medium size for professional work on assignment/partnership/sub-contract basis and also looking for a bright Chartered Accountant to be based at Chennai to help Senior Partner in his professional work. Contact: M/s Ponraj & Co. Chartered Accountants, Trade Centre, 108, Wallajah Road, Chennai-600002. Phone: 044-28549953, Fax: 044-28528443, Mobile: 09444049953, Email: ponrajca@yahoo.co.in.

4636 An Audit Firm seeks partner to take over running business of their Cochin branch. Contact with details to cacochin2008@gmail.com.

4637 Delhi Based CA firm Seeks merger of existing firms/practicing individuals and Chartered Accountants on Partnership/employment/retainership/sub-contract basis. Contact: jnmitalco@rediffmail.com 9811035821/9811170568.

Accounting Technicians Course

The Accounting Technicians Course is a welcome measure to make available the excellent accounting training system of the Institute to industry at operational level. Many unsuccessful CA students especially in the small towns and rural areas who had no recognition of their study of CA course will now find the certification a useful addition to their CVs while seeking employment.

- CA. A K Shyamala Shenoy, Mangalore

I felt extremely happy to read in the May 2008 Issue's President's message about the introduction of Accounting Technicians Course. Of course, such a course was long overdue. Incidentally, I have been an advocate of such a course since 1986. This move will not only prove to be a boon for hundreds of students who could not successfully complete the Chartered Accountancy course but will also now attract much more number of students at the CPT level. I congratulate the Institute for introducing this course.

- CA GRK Nair, Allepey

I am a regular reader of the CA Journal and find it quite informative and helpful in keeping me up-to-date. I was delighted to read in the President's message about the ICAI's initiative for Accounting Technicians Course, which will not only prove to be immensely fruitful for students but will also increase the role of the ICAI as a partner in national building.

- CA. Krishan Shah, Bangalore

Celebrating Diamond Jubilee of ICAI

I feel proud that we will be celebrating Diamond Jubilee of ICAI from 1st July 2008. On this occasion, I salute my Institute for ensuring continued high reputation and trust for accountancy profession in all these years and for enabling the profession to expand its horizons in recent times in line with changing business environment. Indeed, it is the result of our Institute's missionary endeavours and futuristic initiatives that the Chartered Accountants are now increasingly being recognised as multi-faceted, multi-dimensional professionals, strongly equipped to provide complete business solutions. With globalisation making deeper and deeper inroads into the country, the opportunity of further development of CA profession lies in rural India

where there is treasure of talent. It will be timely if this untapped talent in villages and small towns is encouraged, motivated and shaped to join CA course. It's time that Institute makes its presence felt all the more in villages and small towns and reaches out to students through help lines/help desks and similar measures. Indeed, our Institute knows what is best for the future of the profession.

- CA Shankar Prasad Keshri, Bilaspur

Journal is More Informative

I congratulate the ICAI for having improved the quality of its journal which has come a long way in terms of both contents and presentation. I would like to suggest that more interactive features should be introduced in the journal to make it more interesting.

- CA. S. N. Kapadia, Mumbai

The May 2008 issue of the journal was highly informative and interesting. The articles published under Accounting, Auditing and Banking deserve special mention, particularly the article on 'convergence of accounting standards world over with IFRS'. I also thank the Institute for introducing new pattern of conducting CPT examinations, which gives students enough time to be well prepared for the examinations.

- Amresh Naik, CA student, Goa

Lectures on Gyandarshan

I thank the ICAI for starting lectures of CPT classes on Gyandarshan channel. It is enjoyable to learn and memorise the subjects through lectures by eminent faculty. It was really a learning experience. I hope that lectures for PCC and CA Final students are also telecast on Gyandarshan.

- Antima Jain, CPT Student, New Delhi

Write to the 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 Bhawan, C-1, Sector 1, Noida (U.P.) 201 301.

- Editor



Dear Esteemed Colleagues,

'Success usually comes to those who are too busy to be looking for it'-- so goes a saying, which aptly applies to us professionals. In the absence of clearly defined goals, we become strangely loyal to performing daily trivia until ultimately we become enslaved by it. So, we need to go on adding value to our services and keep on innovating and tapping newer areas and sectors. Given the training and the skill that we have, success is bound to come to us. And success leads to further success.

Moving on to the developments on other professional fronts since my last communication, I am happy to inform you that we have taken several initiatives and decisions, which I would like to share with you.

Accounting Standard 32

In a move that will bring about greater transparency in the disclosures relating to financial instruments such as derivatives, we have approved Accounting Standard (AS) 32, *Financial Instruments: Disclosures*. The Accounting Standard requires entities to provide disclosures in their financial statements to enable users to evaluate the significance of financial instruments for the entity's financial position and performance; and the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks. Like AS 30 and AS 31, the AS 32 is recommendatory from 1st April 2009 and mandatory from 1st April 2011.

Revival of Membership

With a view to bring back to our fold those Chartered Accountants who, for one or the other reason, have ceased to be members of the Institute, a scheme has been formulated under which they can revive their membership on payment of stipulated fee. The details of the same are being hosted on our website. I call upon all the CAs concerned to avail them of this opportunity and revive their membership and benefit from the multitude of professional facilities and growth opportunities offered by the Institute.

Taking yet another step to serve the members better, I recently inaugurated a helpline dedicated to the members in Vishwasnagar, New Delhi. A similar helpline has been launched in Mumbai too. I must compliment Northern India and Western India Regional Councils for taking the lead in setting up these helpline services. Our other regional offices will also follow suit shortly. These helplines will respond to and satisfy members' queries within a specified time period and will help in addressing a long overdue grievance of the fraternity.

As you all are aware, the Institute decided to set up its own dedicated Information Technology labs for

the benefit of students. While setting up these labs, it was my great desire to also reach out to all those members who are not computer savvy and equip them with IT skills so that they did not feel left out in today's dynamic environment. It gives me immense pleasure to inform you that we have now started giving computer training to such senior members also through our IT labs. This initiative has really taken off well. A programme to this effect being conducted by NIRC was recently flagged off by the undersigned in Delhi. The enthusiasm showed by senior members for the programme was quite praiseworthy. The other regional councils and branches located at other places are also in the process of starting such programmes for the benefit of such members and I am quite confident that we will be able to provide computer training to all members by this year end.

Advertisement Guidelines

In another important initiative, we have finalised guidelines for advertisement for the Members in Practice, which have been hosted on the website of the Institute. As you may be aware, the Chartered Accountants Act was amended allowing members to advertise their services, subject to guidelines issued by the Council. These guidelines are intended to permit the Members in Practice to advertise their services through a write-up. The write-up may be issued, circulated or published through print or electronic mode. The write-ups could include details about the Members in Practice/Firms and the details of the employees of the practicing Members including the nature of the services provided.

Corporate Affairs Standard

The globalisation and the emerging scenario of the corporate world require specialised professionals who can provide service with excellence, professionalism and objectivity to deal with various aspects of the corporate affairs. Members and other stakeholders need guidance on various areas of corporate laws and practices. In response to the need of the profes-

sion in the global corporate sector, we have initiated steps to formulate Corporate Affairs Standards on various areas of corporate affairs such as business valuation, investor protection, corporate restructuring, auditor's appointment, retirement and removal, valuation of shares etc. to guide the members and stakeholders and to ensure a corporate regime benchmarked with the best global practices. I am of the view that our profession, because of its expertise and excellence in corporate practice, is the best suited for this. I am sure this initiative will prove to be a useful capacity-building measure for the profession.

New CPE Advisory

I am sure that you will all agree that the provision of compulsory CPE requirements for all members in practice has given us great opportunity to constantly learn new things, hone our skills and keep ourselves up-to-date in tune with changing times. However, it was felt that sometimes members did not have choice vis-à-vis subjects and areas of interest. To address this need, we have now approved a new CPE Advisory on Unstructured CPE Learning Activities (ULAs), which has become applicable from January 2008. This advisory, which has been published elsewhere in the journal, would offer guidance and direction to members who want to avail themselves of CPE Credits through Unstructured Learning Activities. I would advise members to devote time to ULAs on a continuing basis so as to maximise their gains. The topics studied should be of relevance to the work profile of member/s and/or the chartered accountancy profession. The necessary provision for recording the CPE Hours for the ULAs has been provided on the CPE Portal. I am sure this initiative will particularly benefit members in industry who are required to complete 45 CPE credit hours of structured/unstructured learning in a rolling period of three years and a minimum of 10 CPE credit hours of structured/unstructured learning each year.

E-learning Initiative

As a part of our continuing drive to use most modern tools of information technology for the benefit of members and students, we are working towards launching an e-learning portal 'ICAI-Online'. The ICAI-Online portal will offer a progressive, highly interactive online learning experience involving enriching videos, ambient sound, engaging imagery and instructional narration.

Lectures Through Gyandarshan

In a major initiative to reach out to the students across the country through satellite, we have started organising lectures on a daily basis for CPT students through Gyandarshan channel with effect from May 1, 2008. A student can now watch these programmes sitting at his/her home itself and can communicate with the teacher through phone, email or SMS live. Keeping in mind the requirements of the CPT stu-

dents, we have enlisted the services of highly experienced faculty members who are giving intensive training to students through these lectures. Lectures for PCC/final students will also commence soon in the morning and evening hours to ensure that the timings do not overlap with that of practical training. I am sure that this initiative will prove to be immensely beneficial to our students and at the same time address issues related to coaching classes and lead to an improvement in the overall quality of our education.

PE II Examinations to Continue till May 09

In yet another initiative for students, the Council has decided to continue to hold PE II examinations till May, 2009. With this relaxation, students who for one reason or the other have not been able to pass the PE II examinations by May, 2008 would now be able to clear the examinations by May, 2009. Thereafter, those who are not able to clear the examinations by that time will have to shift to PCC examinations.

International Initiatives

As part of our constant efforts to provide wider professional opportunities and exposure to members of the Institute based in other countries and to facilitate greater professional interaction among themselves, I am happy to inform you about setting up of a chapter of the Institute in New York, U.S.A. This is the 20th chapter of the Institute outside India. I am sure that this chapter would act as yet another bridge between Indian and US accountancy profession and help in guiding our members besides identifying and boosting professional opportunities for them.

The South Asian Federation of Accountants (SAFA) Assembly Meeting and the Confederation of Asian and Pacific Accountants (CAPA) Board Meeting took place in Kathmandu on 8th and 9th May 2008 respectively. I am happy to inform you that SAFA has decided to set up a Committee on Small and Medium Practitioners (SMPs) under the Chairmanship of ICAI. The CAPA Board has decided to hold its next Board meeting in India coinciding with the International Conference being held at Jaipur in November'08.

Before I conclude, let me remind you that the future belongs to those who live intensely in the present. So we need to intensify our core competence, add more and more value to our services and be complete business solution providers. Let's try to tap even the most distant of the emerging opportunities, many of which may come in the garb of challenges.

CA. Ved Jain



New Delhi, May 24, 2008

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TOTAL CIRCULATION: 1,86,000

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1989 LATEST AT A GLANCE

1989 CLASSIFIEDS

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Smile Please

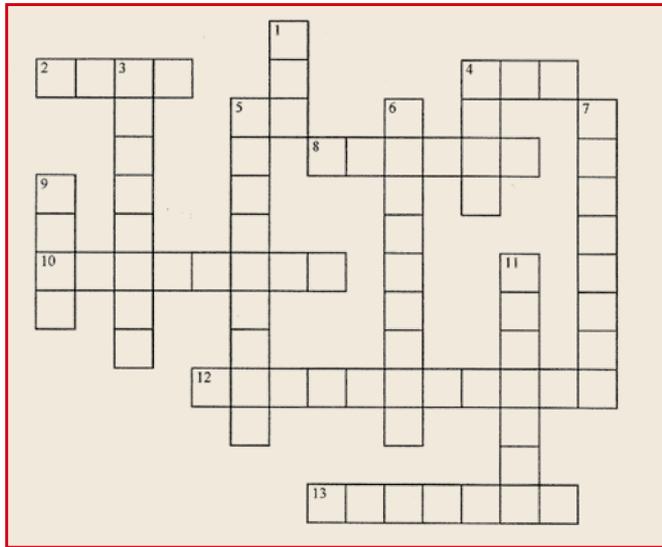
A woman invited some people to dinner. At the table, she turned to her six-year-old daughter and said, "Would you like to say the blessing?"

"I wouldn't know what to say," she replied.

"Just say what you hear Mommy say," the mother said.

The child bowed her head and said, "Dear Lord, why on earth did I invite all these people to dinner?"

CROSSWORD 024

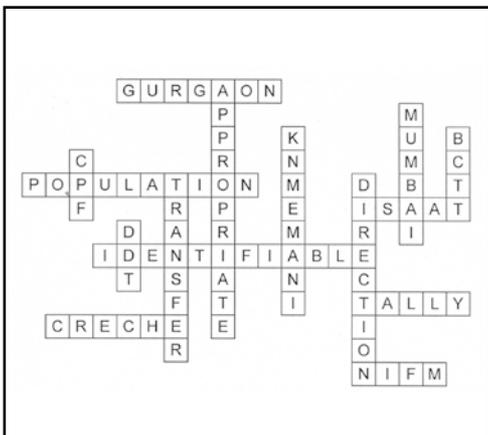


OUT OF THE BOX

THEY ARE FROM TAX-DEPARTMENT & ARE DEMANDING EITHER HIKE IN SALARY OR INCREASE NUMBER OF 'SCRUTINY CASES' . . . !!



Crossword 023 - Solution



ACROSS

2. The ICAI has recently constituted a group on _____.
4. Abbreviation of one of the newly set up committees of the ICAI _____.
5. That is abbreviated.
8. A set of line or in succession.
10. One of the newly set up branches of the ICAI.
12. To create a global financial reporting infrastructure we need _____.
3. Newly set up chapter of the ICAI.

DOWN

1. The price paid for the services.
3. Committee on Financial Sector Reforms was headed by _____.
4. A written instrument.
5. Government is worried about rising _____.
6. Puzzle you are trying to solve.
7. Where the forms of balance sheet are given in The Companies Act, 1956?
9. ICAI is the founding member of this accounting body.
11. One of the foreign delegates who visited Institute recently.

Note: The first ten correct entries from the members will be awarded one hour CPE Credit. The entries, along with name, membership no. and contact details shall be sent by post to: The Editor, The Chartered Accountant, ICAI Bhawan, C-1, Sector 1, Noida - 201 301.