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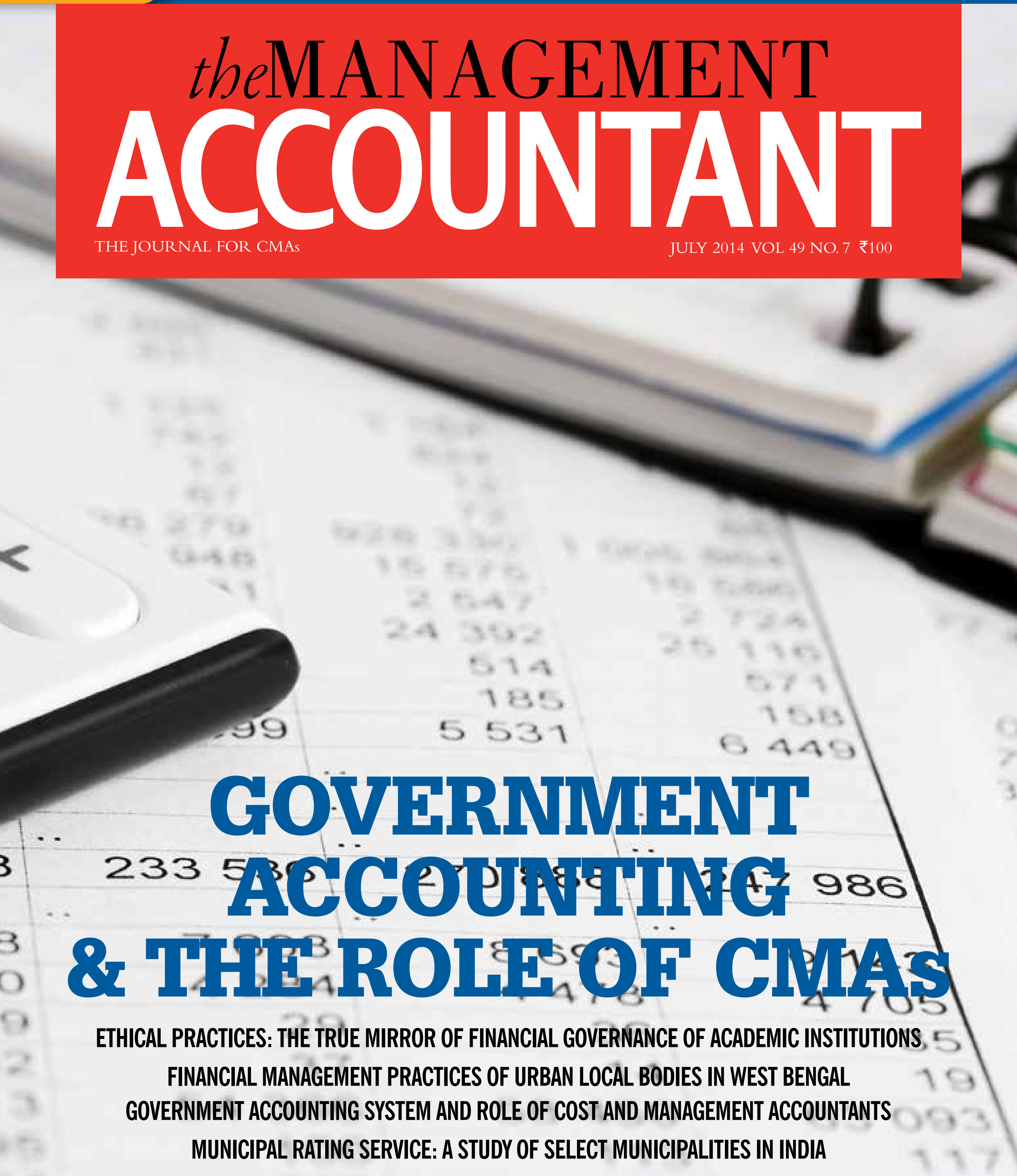
the MANAGEMENT ACCOUNTANT

THE JOURNAL FOR CMAs

JULY 2014 VOL 49 NO. 7 ₹100



GOVERNMENT ACCOUNTING & THE ROLE OF CMAs

ETHICAL PRACTICES: THE TRUE MIRROR OF FINANCIAL GOVERNANCE OF ACADEMIC INSTITUTIONS

FINANCIAL MANAGEMENT PRACTICES OF URBAN LOCAL BODIES IN WEST BENGAL

GOVERNMENT ACCOUNTING SYSTEM AND ROLE OF COST AND MANAGEMENT ACCOUNTANTS

MUNICIPAL RATING SERVICE: A STUDY OF SELECT MUNICIPALITIES IN INDIA

The Institute of Cost Accountants of India

(Statutory body under an Act of Parliament)

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THE JOURNAL FOR CMAs

ISSN 0972-3528

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- has inputs from industry people for the view from the ground
- has a global outlook with special emphasis on India
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The Institute of Cost Accountants of India, a statutory body set up under an Act of Parliament in 1959, has been publishing its pioneering journal, *The Management Accountant* for 49 years. The journal is aimed at the needs of Cost and Management Accountants (CMA) and provides information, analyses and research on global and national developments. The wide circulation and inputs from academicians, researchers and industry stalwarts have been the reasons for the success of the journal.

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The Institute of Cost Accountants of India

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA (erstwhile The Institute of Cost and Works Accountants of India) was first established in 1944 as a registered company under the Companies Act with the objects of promoting, regulating and developing the profession of Cost Accountancy.

On 28 May 1959, the Institute was established by a special Act of Parliament, namely, the Cost and Works Accountants Act 1959 as a statutory professional body for the regulation of the profession of cost and management accountancy.

It has since been continuously contributing to the growth of the industrial and economic climate of the country.

The Institute of Cost Accountants of India is the only recognised statutory professional organisation and licensing body in India specialising exclusively in Cost and Management Accountancy.

MISSION STATEMENT

The CMA Professionals would ethically drive enterprises globally by creating value to stakeholders in the socio-economic context through competencies drawn from the integration of strategy, management and accounting.

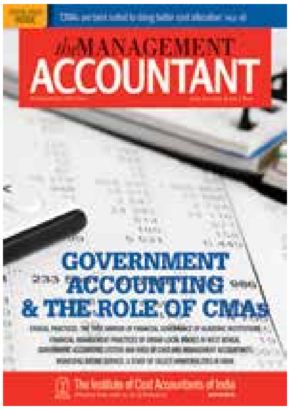
VISION STATEMENT

The Institute of Cost Accountants of India would be the preferred source of resources and professionals for the financial leadership of enterprises globally.

IDEALS THE INSTITUTE STANDS FOR

- to develop the Cost and Management Accountancy profession
- to develop the body of members and properly equip them for functions
- to ensure sound professional ethics
- to keep abreast of new developments

Behind every successful business decision, there is always a CMA



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July 2014

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TAXATION

FINANCIAL MANAGEMENT

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CONTEMPORARY ISSUE

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FROM THE EDITOR'S DESK

Greetings!

Government accounting is the process of collecting, recording, classifying, summarizing, communicating and interpreting the financial transactions relating to the revenues and expenditures of government offices. In other words, government accounting communicates the financial information regarding the collection and utilization of public funds and properties. In India the accounting policies followed by Government entities are outlined in the Government Accounting Rules (GAR) and the General Financial Rules (GFR). These set out the guidelines to be followed by the government entities for any receipts or expenses. The Comptroller and Auditor General of India has constituted Government Accounting Standards Advisory Board (GASAB) with the support of Government of India to facilitate reforms in Government Accounting.

Traditionally, the cash-based system of accounting is followed in India for budgeting, accounting and financial reporting. Though this system is simple and easy, it is not the most informative way of presenting government accounts. It does not have an adequate framework for accounting of assets and liabilities. Importantly, capital expenditure under the cash system is brought to account only in the year in which a purchase or disposal of an asset is made.

For the above reasons, on the recommendation of the Twelfth Finance Commission, the Indian Government Financial Reporting Standards (IGFRS) were formulated for an accrual-based government accounting. GASAB has also developed an operational framework for migration to accrual accounting GASAB has so far developed five IGAS and submitted them to the Government of India for notification.

The methods or systems of preparing government accounts can be classified into four broad categories:

- Cash accounting
- Modified cash
- Modified accrual
- Accrual

The system of government accounting follows single entry and double entry system. The annual accounts of government consist of annual finance account and annual appropriation accounts of government. Finance account consists of main statement such as Receipts & Payment Account, Statement showing Surplus/Deficit for the year, Summary of Balances and supporting statements like Loans & Advances extended by the Union Government Statement on Investments, Statement on Capital Expenditure, Statement of Public Debt etc.

All the expenses of government are classified under five heads:

- Sectors
- Major heads
- Minor heads
- Sub heads
- Detailed heads of accounts

The accounts are kept in three major parts:

- Consolidated Funds of India
- Contingency Funds of India
- Public Account

Every officer incurring or authorizing expenditure from public moneys should be guided by high standards of ethics and financial propriety.

- Every officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money.
- Expenditure from public moneys should not be incurred for the benefit of a particular person or a section of the people, unless:

a. A claim for the amount could be enforced in a Court of Law,

b. The expenditure is in pursuance of a recognized policy or custom.

This issue presents a good number of articles on the cover story theme 'Government Accounting and the Role of CMAs' by distinguished authors and an interview of an industry stalwart. We look forward to constructive feedback from our readers on the articles and overall development of the journal under this section. Please send your mails at editor@icmai.in. We thank all the contributors to this important issue and hope our readers enjoy the articles.

INSTITUTE TO PROVIDE LEADERSHIP IN COST AND MANAGEMENT ACCOUNTING

CMA Dr Suresh Chandra Mohanty
President, The Institute of Cost Accountants of India

Do not spoil what you have by desiring what you have not; remember that what you now have was once among the things you only hoped for. – Epicurus

A life spent making mistakes is not only more honorable, but more useful than a life spent doing nothing.– George Bernard Shaw

My Dear Professional Colleagues,

It is with deep respect and regard for my colleagues, members, students, chapters and overseas centers of the Institute and stakeholders that I am writing this President's Communique one final time. While I make this pivotal step in my own journey, I reflect on an amazing year of guiding, and growing with the ICAI team – an institution that is embedded in my professional DNA. I move forward with emotion and excitement for the institution's continued growth, fresh perspective and new leadership.

I am thankful for the achievements over the year of our talented team at ICAI; staff of dedicated professionals. I am grateful to my tireless Council colleagues for their stewardship, commitment, and passion. I would like to express what an absolute pleasure it has been to lead this Institution. It has been a time of intense contribution. It's been a time of giving back and seeing rewarding results. And it has been a time of creativity and learning. With complete honesty I share with you some of the high points of the year:

CMA Vision 2030 with guidance and support from the National Advisory Board

The year started with the constitution of the National Advisory Board consisting of eminent persons from industry and other sectors to provide insight and formulate strategies and policies of the Institute to fit in with the emerging economic environment and provide leadership in the field of Cost and Management Accounting. The NAB met in September to formulate the strategy and way forward for the Institute to achieve Vision 2030. Now when the NAB is meeting for the second time in July 2014, the Institute has done a lot of work on the proposed strategy. Following are some of the reflections of that strategy:

- **Research and Studies**

The Institute is currently conducting Cost Research Studies for Indian Railways, Ports, Health Sector, Education Sector, Power Sector, Coal Sector, Banking and Financial Sector and other important sectors of the economy to support the policy initiatives of the Government.

- **Professional Support by CMA's**

CMA professionals can support government initiatives aimed at sustained and inclusive growth through developing an appropriate monitoring mechanism based on the tenets of performance management wherein expenditure is mapped against the desired and actual outcomes for evaluating the effectiveness and efficiency of a particular scheme or service. I am happy to share that we have offered Professional Support by CMAs to all the Ministries of Government of India and it is heartening to note that we have started receiving responses from the Ministries / Departments. We are meeting with Ministry of Rural Development very shortly. Ministry of Health is already working with the Institute. Ministries of Coal and Railways have shown interest in utilizing the services of the Institute. We hope that the competence of the CMAs has a very bright future.

"

CMA PROFESSIONALS CAN SUPPORT GOVERNMENT INITIATIVES AIMED AT SUSTAINED AND INCLUSIVE GROWTH THROUGH DEVELOPING AN APPROPRIATE MONITORING MECHANISM BASED ON THE TENETS OF PERFORMANCE MANAGEMENT WHEREIN EXPENDITURE IS MAPPED AGAINST THE DESIRED AND ACTUAL OUTCOMES FOR EVALUATING THE EFFECTIVENESS AND EFFICIENCY OF A PARTICULAR SCHEME OR SERVICE

- **Meeting with the Industry/Regulators/ Industry Associations**

To understand and cater to the expectations of the Industry and also to appraise them about the initiatives taken by the Institute, better interaction with the industry is of prime importance. We are indeed privileged by the overwhelming response of the industries and trade associations, and their suggestions to meet the greater interest of the stakeholders while serving the national requirement. To come closer to the Industry I have been meeting with various Industries / PSUs / Banks etc. To name a few Hindustan Aeronautics Limited, Coal India Limited, NTPC Limited, Indian Overseas Bank, Bharatiya Mahila Bank, Punjab National Bank, SEBI, Reserve Bank of India, UCO Bank etc. The Institute has collaborated with CII and ASSOCHAM to address the areas of mutual concerns.

- **Professional Social Responsibility**

To discharge our Professional Social Responsibility (PSR), the Institute has extended its expertise and competence by collaborating with State Governments of Kerala, Tamil Nadu and Rajasthan to facilitate capacity building and shaping "Young India", to reach the unreached across the value chain by offering CAT (Certificate in Accounting Technician) Program. Discussions with the Government of Andhra Pradesh and Odisha have also been initiated on the same lines. We are also expanding our physical infrastructure by creating Centre of Excellence in major cities, leveraging the local sectors such as Pharmaceuticals, Infrastructure, Mining, Power, etc by initiating research which will help the industries with best practices.

Power Sector Initiatives

With the objective of providing adequate data to the government, Regulators and players in the power sector to ensure quality power at affordable prices to the Consumers and strengthen the sustainability of the key sector of the economy, the Institute has organized meetings with experts from the power sector and power regulator. There have also been discussions on "Cost to Serve Model" for power distribution cost, which is a key component of Power Sector reforms for the nation.

Central Excise and Customs

In the path of continuous journey for dissemination of knowledge by the experienced members in pursuit of professional excellence, the Institute has organized training programs / workshops for various Government departments including Central Board of Excise &Customs. These programs have been organized at Lucknow, Ahmedabad, Chennai and Jaipur and many others are on the cards.

Meeting with Government Departments

With the objective of briefing about the ongoing initiatives of the Institute in terms of developing cost competitiveness in all social and government spending, I have been meeting with the Heads of the Departments of the Central and State Governments. Some of the prominent meetings are with the Advisor (Accounts), Ministry of Railways, Government of India and his senior colleagues; Deputy CAG and Chairperson, GASAB; Chairperson, CBEC; Chairperson, Audit Board; Secretary, DPE; Secretary, Defence Production; Secretary, Mining; Revenue Secretary; Principal Secretary to Hon'ble Chief Minister of Gujarat; Officials of Government of Gujarat; Managing Director, Indian Ports Association; Chief Executive, IBA and Hon'ble Finance Minister. These meetings have resulted in enhancing visibility of the profession in Government and its departments.

Prominent Publications

The following prominent publications were released by the Institute during the year at 55th National Cost Convention at Bhubaneswar and Foundation Day celebration at New Delhi:

- Anti-Dumping – Relevance of cost information
- Service Tax – Reading material
- Guidance Note on CENVAT audit under Central Excise Law (4th Revised edition)
- Guidance Note on Value Added Tax – Its accounting and Auditing (3rd revised edition)
- Compendium of Cost Competitive Practices in India
- Research Study on Shareholding Pattern of Corporate Sector in India
- Cost Audit – Key to Sustainable Growth

Major Events

The Institute organized following major events during the year to showcase the strength of the CMA Profession and also to recognize the contribution of the CMA professionals who have achieved excellence in their professional domain:

- **10th National Award for Excellence in Cost Management**

Mr. Sachin Pilot, Former Minister of State for Corporate Affairs (I/C) presented 10th National Award for Excellence in Cost Management in a function organized by the Institute on 22nd August 2013 at New Delhi.

- **55th National Cost Convention of Institute**

The 55th National Cost Convention of Institute was held at Bhubaneswar on 23-24 February 2014. The Convention was inaugurated by the Shri Surya Narayan Patro, Former Minister for Revenue and Disaster Management, Government of Odisha. The event was a huge success.

- **ICON of the Year Award**

The Institute created ICON Awards in the year 2011 to recognize CMA professionals who have achieved great heights of success in their chosen fields and have been instrumental in enhancing the image of the Cost and Management Accountancy profession. The awards were presented at Bhubaneswar on February 23, 2014 during the 55th National Cost Convention.

- **National Students Convocation of the Institute**

The Institute organized its 3rd National Students Convocation – 2014 at Kolkata on April 8, 2014.

- **National Taxation Seminar**

The Institute organized National Seminar On "Tax Reforms & CMAs" on 7th April 2014 at Kolkata. Dr. Parthasarthi Shome, Adviser to Finance Minister, Govt. of India was the Chief Guest.

- **56th Annual Day Celebrations**

The Institute celebrated its 56th Annual Day at New Delhi on May 19, 2014. Hon'ble Mr. Justice Dipak Misra, Judge, Supreme Court of India was the Chief Guest at the function.

- **1st CMA CFO Awards**

The Institute recognised the contribution of CMA CFOs in the form of an Award on may 19, 2014 at New Delhi to encourage the members of the Institute who have risen to the top positions in their respective organisations.

- **The CFO Summit**

The Institute organized a CFO Summit on 19th May 2014 at New Delhi. Shri Rajiv Takru, IAS, Former Revenue Secretary, Ministry of Finance, Government of India was the Chief Guest of the CFO summit.

MoUs signed

- **MoU with Institute of Internal Auditors, India**

Institute signed an MoU with the Institute of Internal Auditors, India on 9th January 2014 at Kolkata to enable sharing of knowledge, experience and best practices. By virtue of the said MOU, members of ICAI are eligible to obtain direct membership of IIA-India.

- **MoU with Bharatiya Mahila Bank**

Institute signed an MoU with Bharatiya Mahila Bank for overall banking relationship and for assisting the Institute, its students and its members, whether individuals / firms, for availing various banking facilities including financial assistance/accommodation or any other banking services from the Bank.

- **MoU with the IMA, USA**

The Institute signed an MoU with IMA, USA for the mutual benefits of the two Institutes and its members / students.

- **MoU with New India Assurance Company Limited**

The Institute signed and MoU with the New India Assurance Co. Ltd. exclusively for the benefit of members and

"

TO DISCHARGE OUR PROFESSIONAL SOCIAL RESPONSIBILITY (PSR), THE INSTITUTE HAS EXTENDED ITS EXPERTISE AND COMPETENCE BY COLLABORATING WITH THE STATE GOVERNMENTS OF KERALA, TAMIL NADU AND RAJASTHAN TO FACILITATE CAPACITY BUILDING AND SHAPING 'YOUNG INDIA', TO REACH THE UNREACHED... BY OFFERING THE CAT (CERTIFICATE IN ACCOUNTING TECHNICIAN) PROGRAMME

students of the Institute to offer Professional Indemnity policy for practicing Member's of ICAI and other schemes.

Other initiatives

Working module for Centre of Excellence, Reading material for Internal Audit, Systems Audit, Indirect Taxes, Direct taxes, Companies Act 2013, Cost Accounting Standards & Cost Audit and Assurance Standards, Relevance & Utility of Cost & Management Accounting in Banking and Financial Sector, CGPA module for ICLS and Navy Officials were released. Training to existing Students, Training to newly passed out Students and Technical Guides on Business Valuation, Risk based Internal Audit, Risk Management, Strategic Cost Management and Sector-wise Guidelines on Risk Management & Internal Audit and Reading material for Diplomas in Business Valuation, Internal Audit and System Audit was also released.

The Direct Tax Code, 2013

After several persuasions for long years by the Institute, the name of Cost Accountant is included in the definition of Accountant in the Direct Tax Code, 2013 which intend to consolidate the law relating to Income Tax and wealth Tax.

The Companies (Cost Records and Audit) Rules, 2014

The year saw the notification of Companies (Cost Records and Audit) Rules, 2014 which caused heart burn and deep distress amongst the members and students. We are rigorously taking up the matter with the Ministry and assure all the members that we will leave no stone unturned in following up the matter to protect the interests of the profession.

To apprise all the members about the activities / initiatives undertaken by the Departments/ Directorates of the Institute during the month, I now present a brief summary of the activities.

Advanced Studies Department

The last date for the 2nd batch of Diploma in IS Audit and Control and Diploma in Internal Audit has been extended to 30th June, 2014. I am happy to inform that 10 webinars were conducted for Diploma in IS Audit and Control till date while 3 webinars were conducted for Diploma in Business Valuation. The program for the Diploma in Internal Audit is going to start from 1st week of July, 2014.

CPD Activities

During the month, Webinars on 'How to implement Costing (Co) Module in an ERP Environment' and 'Limited Liability Partnership-Basic Overview' were well received by the members at large. I am proud to inform that during the month our Regional Councils and Chapters actively organized many programs, seminars and discussions for the members on the topics of professional relevance such as on Refund of CENVAT Credits, Indian Debt Market, Risk based Internal Auditing, Emerging fields/Challenges ahead in CMA Profession, Internal Audit, Companies Act, 2013 Comprising Audit, Direct Tax Code, Goods & Service Tax, Corporate Governance: Challenges for Cost Accountants with particular reference to Companies Act 2013 and the latest SEBI guidelines, and so on.

Examination Department

The Intermediate and Final examinations for June 2014 were successfully held from 11th June to 18th 2014. The Foundation examination through online mode was held on 28th June 2014. I wish the examinees success in the examinations.

CPD Programs by ICWAI MARF Programs

I am happy to inform that the following programs were organized by the department during the month:

- Residential Program on 'Financial Audit and Computer Based (IT) Audit' was organized for Nepal Electricity Authority during 15-21 June, 2014 at New Delhi and Mumbai for 11 Junior Officers.
- Residential Program on 'Performance/Operational Audit and Major Aspects of Procurement' was organized for Nepal Electricity Authority during 15-24 June, 2014 at New Delhi, Goa and Mumbai for 22 Senior Officers.
- Residential Program on 'Recent Trends in Financial Management Including Companies Act, 2013' has been organized during 17-20 June, 2014 at Kodaikanal, which was attended by 21 officers from various organizations.
- Residential Program on 'Finance for Junior Finance and Accounts Officers & Non-Executives (F&A)' has been organized during 17-20 June, 2014 at Kodaikanal, which was attended by 18 officers from various organizations.
- Two programs on 'Companies Act, 2013' have been organized for Power Finance Corporation on 19th and 20th June at PFC Corporate Office, which was attended by 64 Senior Officers.

International Affairs

To renew the existing MoU with IMA, USA, Institute of Management Accountants, USA invited the Institute's delegation to USA. I am happy to inform that I along with CMA Sanjay Gupta, Chairman, International Affairs Committee and Shri K Govindaraj, Council Member (Government Nominee) attended the meeting with IMA at New Jersey, USA on June 18, 2014 and signed the MoU. The MoU provides for recognition of professional qualifications and professional development programs offered by each Institute, assistance in the development, updating and exchange of the curriculum, exchange of study materials developed by each Institute, assist and cooperate in conducting applied research in management accounting and related areas, Invite, support, attend and conduct seminars, conferences and joint activities mutually beneficial to both the parties and assist in the development of management accounting guidelines and standards. We attended the members meet organized by the American Overseas Center of the Institute at Washington on 19th and 20th June 2014. We also visited Canada to attend Member's meet at Toronto, organized by the Toronto Overseas Center of the Institute and had meeting with CPA, Canada in their office at Toronto in order to explore the possibilities of signing an MoU with them. The meetings were very successful.

Membership Department

The membership fee for the year 2014-15 has fallen due w.e.f. 1st April 2014. I am sure many of you are receiving sms from the Institute for making payment of membership fee for the above stated period. I request all those members who are yet to make payment of their membership fee for FY 2014-15 quickly. I also appeal through this column, to those members, who have not yet taken the membership of the Members Benevolent Fund to take membership of the Fund and avail of the benefits of the same.

Research and Journal Directorate

The Institute was associated with ASSOCHAM as the Knowledge Partner in the seminar titled "Madhya Pradesh - A MICE Tourism Destination" at Bhopal on 18th June 2014. A knowledge report was published by the Institute at the seminar. Shri D.S. Rawat, Secretary General, ASSOCHAM, Shri Anil Oberoi, Principal Chief Conservator of Forest, Government of Madhya Pradesh, CMA Manas Kumar Thakur, CCM, Shri Anil Agarwal, Chairman, Madhya Pradesh Development Council, ASSOCHAM, and other eminent dignitaries were present in the seminar.

Tax Research Department

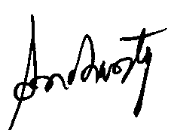
The department organized a Workshop/Training of Central Excise Officers, Jaipur Commissionerate on 4th June 2014. CMA Manas Kumar Thakur, Chairman, Indirect Taxation Committee and CMA Chiranjib Das, Joint Director & Head – TRD were the resource persons.

Technical Directorate

I am happy to inform that the Council of the Institute has approved Cost Accounting Standard on Manufacturing Cost (CAS 22) and the same has been hosted on the website of the Institute.

I wish prosperity and happiness to the students, members and their family on the occasion of Jamat-Ul-Vida and Id-ul-fitr. I pray for the progress of profession and success of members & students. **Friends, I assure you that I will continue to serve the profession as I can think of no better vocation.**

With warm regards,



(CMA Dr Suresh Chandra Mohanty)
1st July 2014

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PAPERS INVITED

Cover stories on the topics given below are invited for *The Management Accountant* for the four forthcoming months.

Issue months	Themes	Subtopics
August 2014	Cost Accounting Standards and its economic implications	• Mandatory Cost Accounting Standards and CASB • CAS – a must for cost competitiveness • CAS in manufacturing, mining and service sector • Companies Act 2013 and CAS • Challenges in implementing CAS – case studies • Areas where new CASs can be formed / implemented
September 2014	Forensic Accounting (FA) & Audit	• Definition, objectives and techniques • FA in comparison to other accounting parameters • FA – applicability and consequence in today's economy • FA and Performance Evaluation • Fraud Risk Management Strategy • FA - an application of Techno-Management Accounting • Fraud Triangle and examination
October 2014	Urban Development and Economic growth	• Uniqueness of Municipal Accounting • Urbanism & Consumption Amenities • Rural-Urban continuum & environmental issues • Financing urban infrastructure & town planning • Performance Evaluation parameters of Urban Projects • Project monitoring for sustainable growth • Comparative Analysis of Urban Projects – India & Abroad
November 2014	Agriculture and the Indian Economy	• Pricing of agricultural products and its marketing • Cost of input, storage, distribution, R&D and its analysis • Drop out problem of agricultural land and labour • Food security • Application of cost management in agriculture • Accounting of agricultural activities • Agriculture and sustainable economic growth

The above subtopics are only suggestive and hence the articles may not be limited to them only. Articles on the above topics are invited from readers and authors along with scanned copies of their recent passport-size photograph and scanned copy of declaration stating that the articles are their own original and have not been considered for publication anywhere else. Please send your articles by e-mail to editor@icmai.in latest by the 1st of the previous month.

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ECONOMY UPDATES

Income Tax

• CBDT notifies new Wealth Tax Return Form & Rules for Online Filing

CBDT has vide *notification No. 32/2014 dated 23.06.2014* prescribed new Wealth Tax Return Form BB w.e.f A.Y. 2014-15 instead of old form BA. CBDT has also prescribed that this form can be filed online with or without digital signature. For certain class of assessee i.e. Individual/HUF not liable to tax audit, e-filing is optional but for other class of assessees i.e. Individual/HUF liable to audit and Companies return of net wealth in FORM BB shall be furnished electronically under digital signature

Customs

• Anti-dumping duty

• Seeks to extend the validity of notification No. 39/2010- Customs, dated the 23.03.2010 for a further period of one year i.e. upto and inclusive of the 11th day of May, 2015 vide Circular No. 28/2014-Cus (ADD), dt. 19-06-2014.

• Seeks to levy definitive anti-dumping duty on imports of homopolymer of vinyl chloride monomer (suspension grade), originating in or exported from Taiwan, the People's Republic of China, Indonesia, Japan, Malaysia, Thailand and the United States of America for a further period of five years vide Circular No. 27/2014-Cus (ADD), dt. 13-06-2014.

• Seeks to levy definitive anti-dumping duty on imports of homopolymer of vinyl chloride monomer (suspension grade), originating in or exported from the European Union and Mexico for a period of five years vide Circular No. 26/2014-Cus (ADD), dt. 13-06-2014.

• Seeks to levy definitive anti-dumping duty on imports of presensitised positive offset aluminum plates originating in or exported from People's Republic of China for a further period of 5 years vide Circular No. 25/2014-Cus (ADD), dt. 09-06-2014.

SEBI

• Minimum Assets under Management (AUM) of Debt Oriented Schemes

As per *Circular - Cir/ IMD/ DF/ 15 /2014 dated: June 20, 2014* it has been decided that:

a) The minimum subscription amount of debt oriented and balanced schemes at the time of new fund offer shall be at least Rs.20 Crore and that of other schemes shall be at least Rs.10 Crore.

b) An average AUM of Rs.20 Crore on half yearly rolling basis shall be maintained for open ended debt oriented schemes.

• Guidelines on disclosures, reporting and clarifications under AIF Regulations

Based on Circular - CIR/IMD/ DF/14/2014 June 19, 2014, it is decided to provide certain clarifications on the AIF Regulations, increase transparency to the investors and provide reporting norms for AIFs as under:

• Submission of information to SEBI under sub-regulation (1) of Regulation (3) of AIF Regulations

• Disclosures in placement memorandum

• Clarification on certain aspects of the AIF Regulations

• Compliance Test Report (CTR)

•Submission of information to SEBI under sub-regulation (1) of Regulation (3) of AIF Regulations

For more details please visit: *http://www.sebi.gov.in*

• Investments by FPIs in Non-Convertible / Redeemable preference shares or debentures of Indian companies

In terms of the RBI circular A.P. (DIR Series) Circular No. 84 dated January 06, 2014, an Indian company is permitted to issue non-convertible/ redeemable preference shares or debentures to non-resident shareholders, including the depositories that act as trustees for the ADR/GDR holders by way of distribution as bonus from its general reserves under a Scheme of Arrangement approved by a Court in India under the provisions of the Companies Act, as applicable, subject to no-objection from the Income Tax Authorities. Now, FPIs are permitted to invest on repatriation basis, in non-convertible/redeemable preference shares or debentures issued by an Indian company in terms of the above RBI circular and listed on recognized stock exchanges in India. The investments by FPIs in the abovementioned securities shall be reckoned against the Corporate Debt Investment Limits (US$ 51 billion) vide *Circular CIR/IMD/FIIC/13/2014 June 17, 2014.*

• Base Issue Size, Minimum Subscription, Retention of Over-Subscription Limit and further disclosures in the Prospectus for Public Issue of Debt securities

1. Minimum Subscription Limit:

It has been decided that the minimum subscription for public issue of debt securities shall be specified as 75% of the base issue. Further, if the issuer does not receive minimum subscription of its base issue size (75%), then the entire application monies shall be refunded within 12 days from the date of the closure of the issue. In the event, there is a delay, by the issuer in making the aforesaid refund, then the issuer shall refund the subscription amount along with interest at the rate of 15% per annum for the delayed period. However, the issuers issuing tax-free bonds, as specified by CBDT, shall be exempted from the above proposed minimum subscription limit.

2. Base Issue Size
In any public issue of debt securities, it has been decided that the Base Issue size shall be minimum Rs 100 Crores.

3. Retention of Over-Subscription Limit:
a) Currently, in respect of public issue of NCDs, SEBI ILDS Regulations does not specify any maximum cap on the retention of over-subscription.
b) In general, issuers shall be allowed to retain the over-subscription money up to the maximum of 100% of the Base Issue size or any lower limit as specified in the offer document. However, for the issuers filing a shelf prospectus, they can retain oversubscription up to the rated size, as specified in their Shelf Prospectus.
c) The issuers of tax free bonds, who have not filed Shelf Prospectus, the limit for retaining the oversubscription shall be the amount, which they are authorized by CBDT to raise in a year or any lower limit, subject to the same being specified in the offer document.
This circular is available on SEBI website at www.sebi.gov.in.

• **Know Your Client (KYC) requirements for Foreign Portfolio Investors (FPIs)**
In the light of the Circular - CIR/IMD/FIIC/11/2014 dated: June 16, 2014, it has been decided as follows:
a. DDPs are advised to share the relevant KYC documents with the banks concerned based on written authorization from the FPIs.
b. Accordingly, a set of hard copies of the relevant KYC documents furnished by the FPIs to DDPs may be transferred to the concerned bank through their authorized representative.
c. While transferring such documents, DDPs shall certify that the documents have been duly verified with the original or notarized documents have been obtained, where applicable. In this regard, a proper record of transfer of documents, both at the level of the DDP as well as at the bank, under signatures of the officials of the transferor and transferee entities, may be kept.

• **Participation of FPIs in the Currency Derivatives segment and Position limits for currency derivatives contracts –**
Circular CIR/MRD/DP/20/2014 dated: June 20, 2014.
For more details please visit: *http://www.sebi.gov.in*

BANKING

• **Export Credit Refinance Facilities -** As per Circular No. RBI/2013-14/621, dated: Jun 03, 2014 it has been decided to reduce the eligible limit of Export Credit Refinance (ECR) facility for schedule banks (excluding RRBs) from the level of 50 per cent of the outstanding rupee export credit eligible for refinance as at the end of the second preceding fortnight to 32 per cent with immediate effect.

• **Limit for Liberalized Remittance Scheme (LRS**) for resident individuals has been increased from USD 75,000 to USD 125,000 vide Circular No. 138 (RBI/2013-14/624) dated: Jun 03, 2014.

• **Statutory Liquidity Ratio** - As per the announcement in the Second Bi-monthly Monetary Policy statement 2014-15 by Reserve Bank of India on June 3, 2014, it has been decided to reduce the Statutory Liquidity Ratio (SLR) of Regional Rural Banks from 23 per cent of the Net Demand and Time Liabilities (NDTL) to 22.50 per cent with effect from the fortnight beginning June 14, 2014 vide circular no. RBI/2013-14/626 dated: Jun 04, 2014.

• **Special Term Repo Auction**
- Introduction of special term repo auctions of 28-day tenor for a notified amount up to 0.25 per cent of net demand and time liabilities (NDTL) of the banking system vide Circular No. RBI/2013-14/627 dated: Jun 04, 2014. The 28-day special term repo auction will usually be conducted on non-reporting Fridays. The first such special term repo auction will be conducted on June 6, 2014 (Friday).

• **CRR for Non-Scheduled Primary (Urban) Co-operative Banks** has been increased by 100 basis points from 3.00 per cent to 4.00 per cent of their total demand and time liabilities, on par with Scheduled Primary (Urban) Co-operative Banks, with effect from the fortnight beginning July 12, 2014 vide *Circular No. RBI/2013-14/628 dated: Jun 05, 2014.*

• **Foreign Direct Investmen**t (FDI) is permitted up to 26 per cent under automatic route in insurance sector vide *Circular No.139 (RBI/2013-14/629) dated: Jun 05, 2014.*

• **Annual Turnover Target on behalf of Mid-segment and Retail investors for Primary Dealers (PDs**)
As per Circular No. RBI/2013-14/630 dated: Jun 05, 2014, it has been decided to enhance the minimum annual target for mid-segment and retail investors to 100 percent of minimum prescribed Net Owned Funds (NOF) for bank PDs and to 150 percent of minimum prescribed NOF for standalone PDs. This minimum annual target will be applicable for the period July 2014-June 2015. This target will be reviewed annually.

• **One Documentary Proof of Address - RBI further simplifies KYC Norms for Bank Accounts**
Reserve Bank has been receiving representations/references from various quarters' especially migrant workers, transferred employees, etc. regarding problems faced in submitting a proof of current/permanent address while opening a bank account. Accordingly it has been decided to simplify the requirement of submission of 'proof of address' as follows:
a. Henceforth, customers may submit only one documentary proof of address

(either current or permanent) while opening a bank account or while undergoing periodic updation. In case the address mentioned as per 'proof of address' undergoes a change, fresh proof of address may be submitted to the branch within a period of six months.
b. In case the proof of address furnished by the customer is not the local address or address where the customer is currently residing, the bank may take a declaration of the local address on which all correspondence will be made by the bank with the customer. No proof is required to be submitted for such address for correspondence/ local address. This address may be verified by the bank through 'positive confirmation' such as acknowledgment of receipt of (i) letter, cheque books, ATM cards; (ii) telephonic conversation; (iii) visits; etc. In the event of change in this address due to relocation or any other reason, customers may intimate the new address for correspondence to the bank within two weeks of such a change.
Source: RBI/2013-14/634 dated: June 9, 2014

• Need for bank branches/ATMs to be made Accessible to persons with disabilities
UCBs are now advised to take appropriate steps to provide ramps at the entrance of the bank branches so that persons with disabilities / wheel chair users can enter bank branches and conduct business without difficulty. It is observed that some banks have not yet made at least one third of the new ATMs installed as talking ATMs with Braille keypads as advised vide our circular referred to above. It is, therefore, advised that banks should make all new ATMs installed from July 1, 2014 as talking ATMs with Braille keypads and lay down a road map for converting existing ATMs as talking ATMs with Braille keypads as advised in our circular dated April 24, 2009 ibid and the same may be reviewed from time to time by the Board of Directors/Customer Service Committee of the Board.
In addition to the above, magnifying glasses should also be provided in all bank branches for the use of persons with low vision, wherever they require, for carrying out banking transactions with ease. Branches should display at a prominent place notice about the availability of magnifying glasses and other facilities available for persons with disabilities.
Source: Circular No. RBI/2013-14/637 dated: RBI/2013-14/637

• Annual Return on Foreign Liabilities and Assets Reporting by Indian Companies – Revised format
All Indian companies which have received FDI and/or made FDI abroad in the previous year(s) including the current year, should file the annual return on Foreign Liabilities and Assets (FLA) in the soft form to the Reserve Bank by July 15 every year vide Circular No. 145 (RBI/2013-14/646) dated: Jun 18, 2014.

• New features in RTGS System
- It has hence been decided to enable the 'Hybrid' and 'Future value dated transaction' features in the RTGS system with effect from July 14, 2014 vide Circular RBI/2013–14/651 dated: : Jun 20, 2014. The Hybrid feature will be configured to do off-setting every 5 minutes. The transactions with normal priority would be settled in off-setting mechanism, with a maximum of two attempts i.e. the maximum time a transaction would be in "normal" queue is 10 minutes. If the transactions with normal priority are unable to be settled in offsetting mode within this time, the priority of the transaction would be automatically changed to "urgent". The parameter value will be set to 10%. This means that 10% of the balance in the settlement A/c would be taken for settlement in the offsetting mode.

INDIAN ECONOMY NEWS

• India's Modi government takes steps to control inflation
India's new government on Tuesday imposed export restrictions on certain farm commodities and ordered a crackdown on hoarding to control rising food prices, a day after wholesale price inflation hit a five-month high.
Source: Reuters, 17 Jun 2014

• Central bank governor reassures as oil spike highlights India risks
AIndia is ready to deal with any external shock arising from the Iraq crisis, its central bank chief said on Tuesday, even as a spike in oil prices heightens the inflation, growth and budget risks facing new Prime Minister Narendra Modi.
Source: Reuters, 17 Jun 2014

• India's Modi kicks into gear with defence, dam projects
India's new government kicked into gear this week, clearing billions of dollars worth of long-delayed defense projects, including a big navy base, as well as approving the scaling-up of one of the country's biggest dams.
Source: Reuters, 13 Jun 2014

• Services activity grows for first time in nearly a year
Activity in India's huge services industry expanded for the first time in nearly a year in May, driven by a surge in new business, a survey showed on Wednesday.
Source: Reuters, 04 Jun 2014

• RBI eases inflation tone, loosens credit in gesture to Modi
Reserve Bank of India (RBI) governor Raghuram Rajan on Tuesday eased rules to spur bank lending and toned down his inflation rhetoric in moves set to be welcomed by a new pro-business government determined to revive economic growth.
Source: Reuters, 03 Jun 2014

(For further details on these issues, please visit the Institute's website: www.icmai.in for the complete CMA E-Bulletin, July 2014, Vol 2, No. 7, in the 'Research and Publications' section.)

the MANAGEMENT
ACCOUNTANT
THE JOURNAL FOR CMAs
ISSN 0972-3528

Guidelines for submitting articles for 'The Management Accountant'

1) Contributors are requested to send soft copies (in MS Word format) through emails to The Editor, The Management Accountant, The Institute of Cost Accountants of India, CMA Bhawan, 4th Floor, 84 Harish Mukherjee Road, Kolkata - 700 025. The soft copy of the article should be mailed to **editor@icmai.in.**

2) In case of theme article, the soft copy to be mailed to the above stated mail ID latest by 1st of the preceding month in which the article is sought to be published. That is, for an article to be published in February, the same may be forwarded by 1st of January, at least.

3) The articles must be relevant to the economy, society and the nation.

4) The articles should be around 1500 to 2000 words and must be an exclusive contribution for the Journal.

5) The cover page should contain the title of the paper, author's name, designation, official address, contact phone numbers, e-mail address and an abstract of not more than 150 words.

6) References should be given at the end of the manuscript and should contain only those cited in the text of the manuscript.

7) The contribution must be original in nature and is neither published nor under consideration for publication anywhere else. A scanned copy of signed Declaration by the author is to be attached with the article. The format of the declaration is given below.

8) A scanned passport size photograph (at least, 600 dpi) of the author and in case of joint authorship of all the authors should also be mailed along with the soft copy of the article.

9) Figures and tables should be numbered consecutively and should appear near the text where they are first cited. The figures must be in editable format.Captions of the figures and tables are to be given at the bottom and at the top respectively. Headlines of the sections and sub-sections should start from the left-hand margin.

10) The final decision on the acceptances or otherwise of the paper rests with the competent authority / editorial board and it depends entirely on its standard and relevance. The final draft may be subjected to editorial amendment to suit the Journal's requirements.

11) The copyright of the contributions published in the Journal lie with the publishers of the Journal.

Declaration

I/We affirm that the article titled '_____________' is my/our original contribution and no portion of it has been copied from any other source, and it would not be sent elsewhere for publication. The views expressed in this article are not necessarily those of the Institute or the Editor of the Journal.

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(Signature)
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Designation:
Organization:
E-mail ID:
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CMA DOSSIER

Name of the topic	Author	Reference With Date	Link
Cost Competitiveness and Export Performance of the Irish Economy	Derry O'Brien and John Scally	Central Bank of Ireland Quarterly Bulletin 03 / July 12	http://www.centralbank.ie/publications/Documents/Quarterly%20Bulletin%20Q3.pdf#page=88
A flexible way of modeling the long-term cost competitiveness of a semiconductor product	Toly Chen	Robotics and Computer-Integrated Manufacturing Volume 29, Issue 3, June 2013, Pages 31–40	http://www.sciencedirect.com/science/article/pii/S0736584512000567
An economic and technological analysis of the key factors affecting the competitiveness of electric commercial vehicles: A case study from the USA market	Wei Feng[1], Miguel Figliozzi	Transportation Research Part C: Emerging Technologies Volume 26, January 2013, Pages 135–145	http://www.sciencedirect.com/science/article/pii/S0968090X12000897
The Determinants of National Competitiveness	Mercedes Delgado, Christian Ketels, Michael E. Porter, Scott Stern	NBER Working Paper No. 18249 Issued in July 2012	http://www.nber.org/papers/w18249
Rural electrification through village grids—Assessing the cost competitiveness of isolated renewable energy technologies in Indonesia	Nicola U. Blum, Ratri Sryantoro Wakeling, Tobias S. Schmidt	Renewable and Sustainable Energy Reviews Volume 22, June 2013, Pages 482–496	http://www.sciencedirect.com/science/article/pii/S136403211300097X
Competitiveness, the Knowledge-Based Economy and Higher Education	Ngai-Ling Sum, Bob Jessop	Journal of the Knowledge Economy March 2013, Volume 4, Issue 1, pp 24-44	http://link.springer.com/article/10.1007/s13132-012-0121-8
Industry-specific Real Effective Exchange Rates and Export Price Competitiveness: The Cases of Japan, China, and Korea	Kiyotaka Sato Junko Shimizu Nagendra Shrestha Shajuan Zhang	Asian Economic Policy Review Volume 8, Issue 2, pages 298–321, December 2013	http://onlinelibrary.wiley.com/doi/10.1111/aepr.12032/abstract?deniedAccessCustomisedMessage=&userIsAuthenticated=false
K-economy in the SAARC integration: a comparative study among the member countries	Amzad Hossain	Competitiveness Review, Vol. 22 Iss: 1, pp.28 – 47 2012	http://www.emeraldinsight.com/journals.htm?articleid=17012890&show=abstract
Analyzing competitiveness of clothing export sector of India and Bangladesh: Dynamic revealed comparative advantage approach	Lalit Mohan Kathuria	Competitiveness Review, Vol. 23 Iss: 2, pp.131 – 157 2013	http://www.emeraldinsight.com/journals.htm?articleid=17084230&show=abstract

Name of the topic	Author	Reference With Date	Link
Economic competitiveness of ethanol production from cellulosic feedstock in Tennessee	Ankit Bansal, Prabodh Illukpitiya, Surendra P. Singh, Fisseha Tegegne	Renewable Energy Volume 59, November 2013, Pages 53–57	http://www.sciencedirect.com/science/article/pii/S0960148113001730
Benchmarking the performance of Chinese airlines: An investigation of productivity, yield and cost competitiveness	Kun Wanga, Xingli Fan, Xiaowen Fu, Yiran Zhou	Journal of Air Transport Management Volume 38, June 2014, Pages 3–14	http://www.sciencedirect.com/science/article/pii/S0969699713001567
Life cycle costing and externalities of palm oil biodiesel in Thailand	Thapat Silalertruksa, Sébastien Bonnet, Shabbir H. Gheewala,	Journal of Cleaner Production Volume 28, June 2012, Pages 225–232	http://www.sciencedirect.com/science/article/pii/S0959652611002769
A Study on Potential Standing Cabin Effects in Improving the Competitiveness of Low-Cost Airlines	Fairuz I. Romli, Ahmad Redzman Mohamad Noor, and Norhafizah Dasuki	IACSIT International Journal of Engineering and Technology, Vol. 6, No. 4, August 2014	http://www.ijetch.org/papers/717-C031.pdf
Unit Labour Costs in Irish Manufacturing	Eddie Casey	Quarterly Economic Commentary Summer 2012	http://www.tara.tcd.ie/xmlui/bitstream/handle/2262/67038/QEC-2012SUM.pdf?sequence=1&isAl-lowed=y#page=49
Dynamic formation mechanism of airport competitiveness: The case of China	Qiang Cui, Hai-bo Kuang, Chun-you Wu, Ye Li	Transportation Research Part A: Policy and Practice Volume 47, January 2013, Pages 10–18	http://www.sciencedirect.com/science/article/pii/S0965856412001607
Studying Cost Competitiveness of Iran's Steel Industry Affected by Elimination of Energy Subsidies (Case Study: Khuzestan Steel Company)	Zeynab Abed, Hooshang Momeni Vesalian	Kuwait Chapter of Arabian Journal of Business and Management Review Vol. 3, No.6(a); Feb. 2014	http://www.arabianjbmr.com/pdfs/KD_VOL_3_6_(a)/6.pdf
Competitiveness, Adjustment and Macroeconomic Risk Management in the Eurozone	Peter Spahn	Research On Money in the Economy Discussion Paper Series No 2013-16, December 2013	https://wipol.uni-hohenheim.de/fileadmin/einrichtungen/wipol/Publikationen_Spahn/adjust.pdf

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Prime Minister and also in-charge of:
Ministry of Personnel, Public Grievances and Pensions;
Department of Atomic Energy; Department of Space; and
All important policy issues and all other portfolios
not allocated to any Minister

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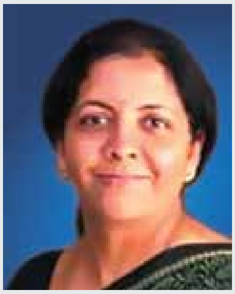
Minister of Finance;
Minister of Corporate Affairs; and
Minister of Defence



Smt. Nirmala Sitharaman
Minister of State (Independent Charge) of
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Minister of State in the Ministry of Finance;
and Minister of State in the Ministry of
Corporate Affairs

Council of Ministers as on 4 June 2014

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Minister of Communications and Information Technology; and Minister of Law and Justice

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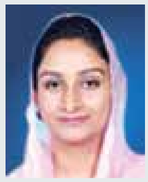
Minister of Civil Aviation

Shri Anant Geete
Minister of Heavy Industries and Public Enterprises



Smt. Harsimrat Kaur Badal
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Minister of Mines; Minister of Steel; and Minister of Labour and Employment

Shri Jual Oram
Minister of Tribal Affairs

Shri Radha Mohan Singh
Minister of Agriculture

Shri Thaawar Chand Gehlot
Minister of Social Justice and Empowerment

Smt. Smriti Zubin Irani
Minister of Human Resource Development

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Shri Santosh Kumar Gangwar
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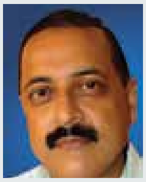
Shri Shripad Yesso Naik
Minister of State (Independent Charge) of the Ministry of Culture; and
Minister of State (Independent Charge) of the Ministry of Tourism

Shri Dharmendra Pradhan
Minister of State (Independent Charge) of the Ministry of Petroleum and Natural Gas.

Shri Sarbananda Sonowal
Minister of State (Independent Charge) of the Ministry of Skill Development,
Page 3 Entrepreneurship, Youth Affairs and Sports

Shri Prakash Javadekar
Minister of State (Independent Charge) of the Ministry of Information and Broadcasting;
Minister of State (Independent Charge) of the Ministry of Environment, Forest and Climate Change; and
Minister of State in the Ministry of Parliamentary Affairs.

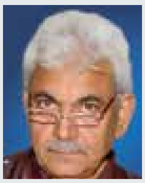
Shri Piyush Goyal
Minister of State (Independent Charge) of the Ministry of Power; Minister of State (Independent Charge) of the Ministry of Coal; and Minister of State (Independent Charge) of the Ministry of New and Renewable Energy.



Dr. Jitendra Singh
Minister of State (Independent Charge) of the Ministry of Science and Technology; Minister of State (Independent Charge) of the Ministry of Earth Sciences; Minister of State in the Prime Minister's Office; Minister of State in the Ministry of Personnel, Public Grievances and Pensions; Minister of State in the Department of Atomic Energy; and Minister of State in the Department of Space

MINISTERS OF STATE

Shri G.M. Siddeshwara
Minister of State in the Ministry of Civil Aviation



Shri Manoj Sinha
Minister of State in the Ministry of Railways

Shri Nihalchand
Minister of State in the Ministry of Chemicals and Fertilizers

Shri Upendra Kushwaha
Minister of State in the Ministry of Rural Development; Minister of State in the Ministry of Panchayati Raj; and Minister of State in the Ministry of Drinking Water and Sanitation

Shri Radhakrishnan P
Minister of State in the Ministry of Heavy
Page 4 Industries and Public Enterprises

Shri Kiren Rijiju
Minister of State in the Ministry of Home Affairs

Shri Krishan Pal
Minister of State in the Ministry of Road Transport and Highways; and Minister of State in the Ministry of Shipping

Dr. Sanjeev Kumar Balyan
Minister of State in the Ministry of Agriculture; and Minister of State in the Ministry of Food Processing Industries

Shri Mansukhbhai Dhanjibhai Vasava
Minister of State in the Ministry of Tribal Affairs

Shri Raosaheb Dadarao Danve
Minister of State in the Ministry of Consumer Affairs, Food and Public Distribution

Shri Vishnu Deo Sai
Minister of State in the Ministry of Mines; Minister of State in the Ministry of Steel; and Minister of State in the Ministry of Labour and Employment

Shri Sudarshan Bhagat
Minister of State in the Ministry of Social Justice and Empowerment

ICAI-CMA SNAPSHOTS

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1. CMA Dr. PVS Jagan Mohan Rao and CMA Sanjay R. Bhargave, CCMs represented the Institute during the SAFA events on 8-10 June, 2014 at Male, Maldives.

2. Courtesy visit of CMA Manas Kumar Thakur, Chairman Research, Innovation and Journal committee of the Institute with CMD of Punjab National Bank, Mr. K. R. Kamath in New Delhi on June 19, 2014. Also seen in the photo are CMA J. K. Budhiraja, Director, Professional Development and CMA (Ms.) Nisha Dewan, Joint Secretary, Continuing Professional Development of the Institute

3. Meeting with Mr. Ajay Mishra, IAS, Principal Secretary, Higher Education, Andhra Pradesh, by Council Members (from the right): CMA M Gopalakrishnan, CMA Dr. PVS Jagan Mohan Rao, CMA Manas Kr. Thakur, CMA Aruna V Soman, CMA Amit Anand Apte, CMA L Gurumurthy and officials in Hyderabad on March 21, 2014

4. Meeting of Central Council Members with Mr. K Vijayanand, IAS, MD of AP Power Generation Corporation in Hyderabad on March 21, 2014

5. Release of Hyderabad Members Directory, 2014 by CMA Dr. A.S. Durga Prasad, Vice President of the Institute, and Central and Regional Council Members and Managing Committee Members in Hyderabad.

6. Mr. D.S. Rawat, Secretary General of Assocham deliberating at a program on 'Madhya Pradesh, A MICE Tourism Destination' in Bhopal on June 18, 2014. On the dais from the left are: Mr. Anil Agrawal, Chairman, MP Development Council, Assocham, Mr. Anil Oberoi, Principal Chief Conservator of Forest, Govt. of MP, Mr. Raghwendra Kr. Singh, IAS, Managing Director MP State Tourism Development Corporation, and CMA Manas Kumar Thakur, Chairman Research Innovation & Journal Committee

GOVERNMENT ACCOUNTING AND THE ROLE OF CMAs

The Government accounting system is still evolving and this evolution will continue to meet the increasing demand for accountability and transparency around public funds

Arabinda Das
Principal Director
Regional Training Institute, Indian Audit & Accounts Department
Kolkata

It is necessary to have the understanding about the history of evolution of government accounting system to appreciate the system, its applications and implications. Before the Government of India Act 1935 came into force, the Governor General was the custodian of the Public Account, which was a single account for the whole of India. All the Financial transactions of the erstwhile Provincial Governments were carried out through the Central Balance. The account of each provincial Government was only a subsidiary account and the balance of each Provincial Government was only an account balance.

Consequent upon the coming into force of the Government of India Act 1935, the balances of Provincial Governments were physically separated w.e.f. 1st April 1937 from the Central Government and separate Public Account was setup for each Government, into which all moneys received by a Government, whether on revenue account or other account were paid and credited to and from which all disbursements on behalf of that Government were made.

With the adoption of the Constitution, this single Public Account was divided into separate parts in which the transactions of the Union Government and of each State Governments are recorded- Viz (i) Consolidated Fund, (ii) Contingency Fund and (iii) Public Account.

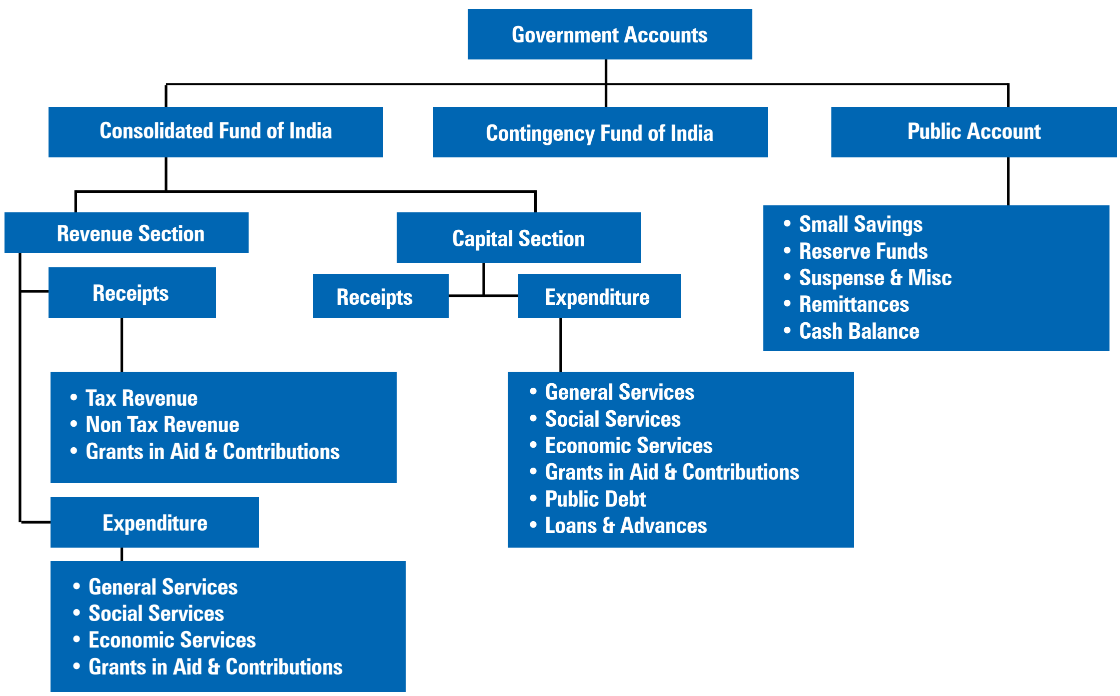
In terms of Article 150 of the Constitution of India, the accounts of Union and of the states shall be kept in such form as the President may, on the advice of Comptroller and Auditor General of India, prescribe. The word "form" used in Article 150 has a comprehensive meaning so as to include the prescription not merely of the broad form in which the accounts are to be kept, but also the basis for selecting the appropriate heads under which the transactions are to be classified

Classification of transactions in Government Accounts on a function-cum-programme basis was introduced from 01.04.1974. This functional classification was evolved with the twin objectives of reflecting Government transactions in terms of functions, programmes and schemes and security correspondence between accounting classification and Plan Heads of development.

The accounts are prepared on the basis of following rules and regulation:

i) Government Accounting Rule 1990
ii) Account Code for Accountants General
iii) List of Major and Minor Head of Accounts
iv) General Financial Rules
v) Receipts and Payment Rules
vi) Central Public Works Department Codes
vii) Manual of Standing Orders

Structure of the Govt. Accounts in India



CMAS CAN BE A PARTNER IN RESEARCH WORK IN IMPROVING THE SYSTEM OF GOVERNMENT ACCOUNTING SYSTEM... AND IN IMPLEMENTING THE ACCRUAL BASIS OF ACCOUNTING

(A&E), Vol. I & II
viii) Treasury Rules
ix) Financial Hand Book
x) Budget Manuals etc.

Structure of Government accounts

The Account of Government of India is shown under three heads:

1. **Consolidated Fund:** The Consolidated Fund is divided into two 'Sections'- 'Receipts' and 'Expenditure'. All revenues received by the Government by way of taxes like Income Tax, Central Excise, Customs and other receipts flowing to the Government in connection with the conduct of Government business i.e. Non-Tax Revenues are credited into the Consolidated Fund which is constituted under Article 266(1) of the Constitution of India. Similarly, all loans raised by the Government by issue of Public notifications, treasury bills (internal debt) and loans obtained from international institutions and foreign government are credited into this fund.

2. **Contingency Fund:** The Contingency Fund is constituted under Article 267 of Constitution of India. The fund is more like an imprest Account. The purpose of this fund is to meet unforeseen expenditure pending authorization from Parliament.

3. **Public Accounts:** The Public Account is constituted under Article 266(2) of Constitution of India. The transactions relate to debt other than those included in the Consolidated Fund of India. This Account includes all public moneys of General Provident Fund, Deposits and Advances, Reserve Fund like Calamity Reserve Fund, Sinking Fund, and Remittances etc. The receipts under Public Account do not constitute normal receipts of Government. Parliamentary authorization for payments from the Public Account is therefore not required.

Annual accounts

Every year, from the accounts compiled by the authorities authorized to maintain the accounts of Central Government, State Governments and Union Territory Governments, accounts showing under the respective heads the annual receipts and disbursement for the purpose of union of each State and of each Union Territory having a Legislative Assembly (including Appropriation Accounts) are to be prepared and got certified by the Comptroller and Auditor General of India. The reports of the Comptroller and Auditor General relating to these accounts shall be submitted to the President or the Governor of a State or the Administrator of a Union Territory having a Legislative Assembly, as the case may be, who shall cause them to be laid before the Houses of Parliament, Legislatures of the States and of Union Territories respectively.

GASAB formation

The Comptroller and Auditor General of India have constituted Government Accounting Standards Advisory Board (GASAB) with the assistance of Government of India to facilitate reforms in Government Accounting. The mission of GASAB is to formulate and recommend Indian Government Accounting Standards (IGASs) with a view to improve standards of Governmental accounting and financial reporting that will enhance and strengthen the quality of decision-making and public accountability. GASAB has two fold mission- improvements in the existing cash basis of accounting system and facilitating an eventual migration to accrual basis of accounting. The Board is chaired by the Deputy Comptroller and Auditor General and has various stakeholders including the Controller General of Accounts, the Controller General of Defence Accounts, the Financial Commissioner (Railways) as members. The Government Accounting Standards Advisory Board is entrusted with the responsibility of formulating and proposing standards with a view to improve the usefulness of the financial reports based on the needs of the users of these reports. The Board also seeks to keep the standards current and provide guidance on implementation of the same.

The Government Accounting Standards Advisory Board has so far developed five IGAS and submitted them to the Government of India for notification. GASAB develops accounting standards under cash basis known as Indian Government Accounting Standards (IGAS) for the existing accounting system and standards for accrual basis under the nomenclature of Indian Government Financial Reporting Standards (IGFRS). Several other products of GASAB are under various stages of development.. In its role of standard setting authority, GASAB also examines and assesses various international developments on Accounting Standards for possible adaptation to Indian requirements. It also covers significant areas of accounting and financial reporting that can be improved through the standard setting process and to improve the common understanding of the nature and purpose of information contained in the financial reports.

The government assets are either not valued or not properly valued as there is no scope for reflection of government assets in cash basis of accounting. This will undergo changes with the implementation of accrual basis. The Cost and Management accountants may get them involved in the process of valuation of government assets

Ethics in Government accounting

Every officer incurring or authorizing expenditure from public moneys should be guided by high standards of financial propriety. Among the principles on which emphasis is generally laid are that every officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money and the expenditure should not be prima facie more than the occasion demands. No authority should exercise its powers of sanctioning expenditure to pass an order which will be directly or indirectly to its own advantage. Expenditure from public moneys should not be incurred for the benefit of a particular person or a section of the people, unless a claim for the amount could be enforced in a Court of Law or the expenditure is in pursuance of a recognized policy or custom. The amount of allowances granted to meet expenditure of a particular type should be so regulated that the allowances are not on the whole a source of profit to the recipients.

Professional opportunities for Cost and Management Accountants in Government accounting

- CMAs can be a partner in research work in improving the system of Government accounting system.
- They can also act as a partner in implementing the accrual basis of accounting in government department in the capacities of advisors, consultants etc.
- The government assets are either not valued or not properly valued as there is no scope for reflection of government assets in cash basis of accounting. This will undergo changes with the implementation of accrual basis. The Cost and Management accountants may get them involved in the process of valuation of government assets.

Conclusion

The Government Accounting System is still in evolving stage and this evolution will continue to meet the increasing demand of ensuring accountability and transparency around the public fund. It needs to be understood that, apart from accountability and transparency, the government accounts should also point out the over spending or under spending by the executives as executives cannot indulge in either other than what they are authorized to do. A lot of changes have been brought about in recent years in Finance Accounts to bring the flavor of accrual basis of accounting to reflect the true nature of income and expenditure of government. The professional bodies can become a partner to significant level in bringing about improvements in government accounting system to improve the usefulness of the financial reports based on the needs of the users without compromising any of its basic objectives. MA

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ETHICAL PRACTICES: THE TRUE MIRROR OF FINANCIAL GOVERNANCE OF ACADEMIC INSTITUTIONS

Borderless Academic Globalisation calls for quality, transparency, relevance and value-based ethical governance and passing on these values to the present and future generations are the prime objectives of the institutes of higher learning

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Man is a social being which itself has developed certain norms and standards over time scale to guide its own and group behavior. These rules or codes differ depending on cultures, traditions and time frames from one to another place but the basic objectives of these standards are to maintain peaceful mutual coexistence within the environment as a whole. These codes or standards are termed as ethics which speaks how a person is expected to behave in diversified social domains amongst the stakeholders.

Higher Education is one of the essential driving forces of the national development as it promotes production and dissemination of knowledge. In this rapidly changing and complex borderless global society, contribution of higher education is undisputed towards ensuring equity, justice, solidarity and liberty. This study intends to focus on the importance of ethical practices in the financial governance which happens to be one of the most important and sensitive functions of the university system.

Financial Governance is the way by which the university financial functions are operated. It is a multi-dimensional aspect which is comprised of several conventions, concepts, processes, rules and regulations having direct impact on the planning, organizing, directing, staffing, coordinating and control of the financial management of the university. The ideal financial governance is expected to ensure organizational transparency, sustainability, equity, timeliness, quality and compliance of university norms/protocols and statutory obligations. The entire issue requires to be observed from the angle of the shifts which are taking place around our socio-economic and technological surroundings of the University system. Ethics is the prerequisite that develops the culture that honors the paradigm shifts in behavioral, technological, and competitive areas of the ever changing environment and can help the academic administrators to translate their efforts into sustainable and significant developments towards attaining objectives of the university.

The basic aim of this study is to introduce ethical practices in different layers of the financial governance of the university in order to ensure transparency, equity, access, support to a create world class teaching and research environment and of course establishment of adequate autonomy and freedom that allows more light and air from the environment.

Need for the study

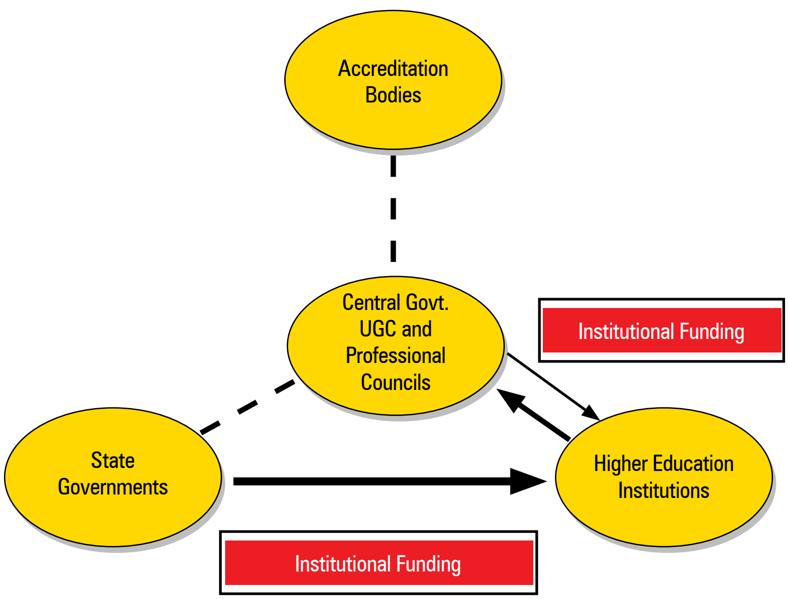
Every economic unit has to prepare the financial statements for the purpose of ascertaining net result of income earned and expenditure incurred during a particular accounting period. A transparent financial disclosure provides information about true financial health, performance and depicts the changes in financial position by analyzing the quantum of assets, liabilities, income and expenditure of the organization.

The Finance Department is the backbone of the University which regulates the financial status complying established accounting standards of the university. Accounting System is comprised of procedures and control measures which help to regulate the financial activities in accordance with the university rules and procedures through collection, recording, evaluating and reporting of financial transactions.

The basic objectives of maintaining sound accounting system are:

- Maintenance of accounts of the university ensuring accuracy, completeness, timeliness and transparency adhering generally accepted accounting principles.
- Providing management information for financial planning, directing, coordination and control.
- Presenting true state of affairs of the

Diagram 1: Relationship between various stakeholders of the Indian higher education system



(Source: Pawan Agarwal; ICRIER WP-180, 2006)

university in the form of periodical financial reporting to the stakeholders of the university.

- Establishment of effective and efficient Financial Rules and Procedures of the university.
- Establishing efficient Responsibility Accounting System.
- Making appraisal of the university auxiliary services.
- Facilitating a well-coordinated financial management system.

The traditional Accountings System following Generally Accepted Accounting Principles (GAAP) projects financial results often cannot be considered as reliable tools of decision making particularly when the environment is found to be extremely complex. Being the major contributor to the socio economic development of the country, the university should adopt the utmost ethical practices and techniques of efficient financial management system which are supposed to be followed by every efficient, prudent, and value creating entities of the society.

It is very important to understand the interaction path of different stakeholders of higher education sector and funding agencies which is projected in the **Diagram 1**.

The entire interaction path becomes smooth and effective if the Value based organizational governance cab be established in different functional areas of the academic institutions. Every organization has now realised that the reputation or goodwill thus developed by implementing the good governance will result into the ultimate economic and cultural gain in longrun. At the same time it is an absolute necessity to make every stakeholder of the university understands that the corrupt practices appear as serious threat to the sustainability of the organization. Hence every employee should be made conscious about their ethical and legal limitations to enable them to face doubts and confusions with due competence.

By ensuring ethical practices, the university can ensure the basic attributes for achieving excellence which the environment surrounding the university demands. In a market driven economy, customer happens to be the king. The students and other stakeholders want the university system more transparent, efficient and at per with best international standards. The gradual withdrawal of Govt. subsidy from higher education forces the students to pay more or in full for higher study and thus they are becoming more conscious to ensure that the returns what they are expecting from their investments are justified.

One of the most important objectives of this study is to explore different segments of the higher education sector with a view to expose a more transparent accounts of the functioning and control aspects of the financial management segment of the institutes towards fulfilling objectives in the light of global vision and social cost benefit analysis.

Present scenario

The higher education in India is now accommodating with a series of structural changes influenced by paradigm shifts in attitude and other variables of within and outside the university system. The main function of the financial management is to ensure liquidity to fund to accommodate the requirements of the changes. But with inflation in one hand and resource crunch in other, the financial administrators face a tough time, getting stuck in between deficit budget and lot of mouths to feed with. The financial governance thus is facing toughest challenges due to these changes in requirements of the university system which calls for serious attention. To make best use of the scarce financial resources, effective financial control measures must be ensured updating managerial, accounting, information & communication techniques keeping pace with the changing requirements of environment.

In the context of the reform in the higher education sector scenario, the financial governance of the university system has witnessed the following changes.

i>Supplementation of public revenues with non-governmental revenue
ii>Reform of public sector financing
iii>Sea change of the universities and other institutions of higher learning due to shift in socio- economic requirements and academic globalisation.

It is found that transformations are required in every sphere of the university system but most of the universities are having closed system with focus on regional and traditional philosophy. The universities of India are mostly state owned but now they are steadily becoming state monitored to state controlled system. The systems within the university are so rigid that it is very difficult to implement values through the layers of the governance. Again people with the system are afraid of restructuring process due to threat of dislodging their positions in the management. There are also resistances to accept transformations due to absence of proper culture and market oriented visions. In most of the cases the need for the required transformation comes as compulsion not from within the system.

In view of the changing paradigms in socio-economic and technological scenario, the university administrators have to be very conscious while satisfying the day to day obligations. It is often found that the University Acts, Statutes, Ordinances do not provide adequate protection at the time of taking care of extremely uncertain and risky situation. In this era of Total Quality Management which aims at understanding stake holder's needs followed by global requirements and individual satisfaction; there must be adequate scope for training and constant upgradation of knowledge on the part of the university administrators. In the university Acts & Ordinances, the scope for penal measures is existing but there is no room for rewarding outstanding employees of the university. It is the informal relationship amongst different university community which contributes a lot to keep everything moving smoothly. No doubt about the fact that a harmonised and good relationship amongst the players in administration is must for fulfilling the objectives of the university. The Acts, Statutes, Ordinances of the university are also required to be reviewed periodically so that the requirements of time can be given appropriate importance which altogether will enable the university to be an efficient player of market driven academic globalization.

Different types of frauds may be occurring in financial domain. Fraud is found even in the systems where control measures are found to be adequate. It may also be found that just like a floating glacier, the visible part of a transaction-fraud comprises of an insignificant amount of money, but the invisible portion can be of alarming size.

Some of the possible frauds which may take place in the system are:

a) Anomalies in Accountin
b) Internal Control Symptoms
c) Analytical Anomalies
d) Lifestyle Symptoms
e) Behavioral Symptoms
f) Tips and Complaints etc.

Implementation of ethical practices in the internal control mechanism with regular and independent assessment and regulatory measures are of utmost necessity to control such kind of most undesirable situations.

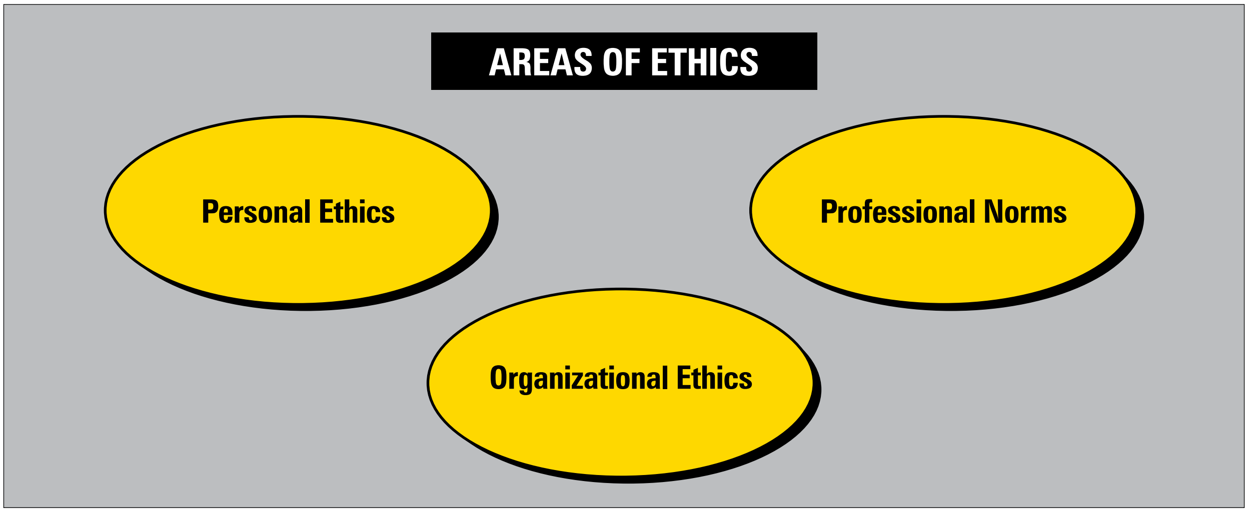
Suggested remedies

The Financial Governance of the university lies in the authorities and responsibilities of the officers mentioned in the Act, Statute and Ordinances of the university. The Executive Council performs the pivotal role in financial decisions on the basis of the recommendations of the Finance Committee particularly relating to resource generation, optimum utilisation of funds, financial autonomy to be given to the departments, finalisation of accounts, budgetary control mechanism etc.

It is very important to study the key areas of ethics such as personal ethics, professional norms and organisational ethics.

of the suggested measures to establish the ethical values at different levels of the university system are:

I) Formation of Ethical Board in the university comprising representatives from stakeholders and experts from the industry. The responsibility of the committee may be establishment and implementation of the ethical codes within the system and evaluate the compliance of the codes by ensuring regular system of vigilance in different layers of the system.
II) Introduction of appropriate training and education for the human facilities of the university to change their attitude.
III) Implementation of a full proof ERP System with adequate checks and balances.
IV) Establishment of the efficient Internal Control Mechanism in the Finance Department.
V) Publishing the ethical norms and quality policies in the Annual Report.
VI) Introduction of Performance Based Funding Mechanism in order to increase efficiency of the academic and administrative departments.
VII) Implementation of Academic Audit beside the Financial Audit of the university
VIII) Redefining the organizational structure, role and accountability to improve and work in innovative areas.
IX) Redefining the performance chain and coordination amongst the in-



THE GOVERNMENT PLAYS A PIVOTAL ROLE IN ADDRESSING THE ISSUES LIKE EROSION OF PUBLIC HIGHER EDUCATION FUNDING AND ROLE OF THE MARKET IN HIGHER EDUCATION

ternal and external stakeholders of the university system.

The different layers of the ethical code of conduct thus created through inducing the above mentioned measures may help the university to prevent frauds in the financial management system.

Where can we go from here

Borderless Academic Globalisation calls for quality, transparency, relevance and value-based ethical governance. Passing on ethical and value based principles to the present and future generations are the prime objectives of the institutes of higher learning. Establishment of ethical practices focuses on the tools and methodologies that explores the true demands of the stakeholders and helps to translate these desires into administrative actions to attain an absolute 'win-win' situation.

The Ethical Board of the university is expected to provide valuable inputs to the General and Executive Council of the university so that decisions to attract best students can be taken in a situation where completion between institutions is very high and the international mobility of students is increasing due to demographic shifts throughout the globe. The Ethical Board is also expected to explain how to improve understanding and behavior amongst the stakeholders who represent cross-cultural backgrounds. The Board should also take care of the difficulties that may appear while transmitting ethical codes amongst the stakeholders through Strength Weakness Opportunity and Threat (SWOT) Analysis.

The Government has got a pivotal role to play for addressing the issues like erosion of public Higher Education funding and role of the market in Higher Education which contributes considerably towards decreasing basic Higher Education values. The State is also expected to take the responsibility for protecting, rewarding and safeguarding the value based higher education and research, which are being undertaken by the institutions. If value based governance is embedded in the national accreditation and ranking procedures undertaken by the national bodies, the institutions will be compelled to comply with the ethical norms and standards. The ISO9000 Standards provides that 'The organization shall plan and carry out production and service provision under controlled conditions' (ISO 2000, Para-7.5.1)

The CMAs have got a very important role in this respect not only to play the whistle-blowers but also as the implementers of ethical practices in the decision making process that truly and ultimately resolves a number of managerial issues. By going beyond the generally accepted accounting practices, the CMAs have to protect the assets of the institutions ensuring their optimal utilization. This involves minimizing cost of operation and optimization of human skill at the same point of time. The CMAs must make the variance analysis of the gap existing between the ethical behavior expected from the employees of the Finance Department and their actual behavior, analyses the reasons of the variations with the organizational values which are the 'touchstones' and address the issue carefully as dealing with human capital is a very sensitive job to do. While demonstrating commitments, the CMAs must accept the responsibilities and comply and encourages others to develop, adopt, and deploy the ethical benchmarks existing within the organization. It is the responsibilities of the CMAs to ensure effective internal control mechanism to make the institution transparent in every respect.

Ethics makes the university system more tuned and more acceptable ensuring the attributes like Vision, Tolerance, Respects, Avoidance of excuse and delays, Team Work, Transparency and Accountability with Responsibility which give the overall governance of the Academic Institution a 'human Face'. Ethics is embedded in the total quality management of the overall University Administration. As a description of culture, the ethical practices thus become the true mirror of the Financial Governance of every Academic Institution MA

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A STUDY OF THE RATING SERVICE IN SELECT INDIAN MUNICIPALITIES

There is no denying that the time has come when government bodies are to rub shoulder with their corporate counterparts for gaining market share. Therefore, emergence of professionalism in the management of cost and finance is a basic necessity for the ULBs

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Municipalities or Urban Local Bodies (ULBs) play a crucial role in the delivery of social and economic services and in provisioning of infrastructure. For most of the local bodies, the only source of revenue is property tax. Thus, there appears a wide gap between the expenditure requirements and revenue potentials of ULBs leading to an inevitable deficit. Increased urbanization exerts pressure on available urban infrastructure. At the same time, increased migration has resulted in proliferation of slums further complicating the situations. For adequate delivery of services, government grants are no longer sufficient. To finance this gap, ULBs are required to raise funds from domestic capital markets by floating municipal bonds. To standardize the private placement issues, RBI proposes credit ratings for all issuers, whether private or public. Thus, credit rating, which was essentially a corporate affair till a decade ago, is now found to have touched ULBs as well. Credit rating is a process of an independent evaluation of credit worthiness of a borrower in which both the ability and willingness of a borrower in making timely payment of returns and repayment of principal amount are judged. It is a subjective assessment and has faced criticisms more often than not. Municipalities in India are increasingly opting for their securities to be rated.

The present project attempts to delve into the domain of municipal rating service in India with respect to some select rated municipalities. The purpose is to identify the variables that have bearing on the credit rating of the ULBs and to evaluate the integrity of the rating process itself.

Review of literature

Since developed countries in the West had a long tradition of suburbs, the concept of local governance is an established fact there. Suburban municipalities obtained a privileged status as against the cities in American law - a reversal of historical pattern as conceived by legislators and judiciary, were more readily integrated as organs of the modern administrative state. Stahl (2008) traces the evolution of the legal concept of municipality by situating it within the context of parallel transformations in two similar corporate organizations: business organizations and labour union. Given the great impact of ratings on the bond market, there have been concerted efforts to model the factors that determine municipal bond ratings. Since 1960s there have been a number of studies conducted to determine the key factors that affect municipal bond ratings. One of the first studies was conducted by Carlton and Lerner (1969). They used multiple discriminant analysis to predict Moody's municipal bond ratings for the states and local governments. Horton (1970) improvised this exercise to examine an equal number of investment quality (above Ba) and non-investment quality bonds, based on some of the variables used by Moody's. Loviscek and Crowley (1990) concluded that probit model may be an improvement over the application of discriminant analysis. Cole and Millar (1982) suggested that economic variables deserve more attention. Lowry (2001) examined the effects of fiscal institutions such as debt limitations, balanced budget rules and tax expenditure limitations on state government bond ratings. They suggested that laws that restrict state government's ability to carry forward a deficit tend to lead to higher credit ratings and lower interest costs. Depken and Lafountain (2006) empirically investigated the effect of public corruption in the United Sates on state bond ratings. The results suggest that more corrupt states have lower bond ratings. This implies that the tax payers in more corrupt states face a negative pecuniary externality by paying a premium for debt. Nanda and Singh (2004) examined the impacts of credit enhancement programmes on the borrowing costs and concluded that credit enhancement programmes have a positive effect on reducing municipal borrowing costs. Hackworth (2002) conducted a study on the impacts of bond rating agencies on local autonomy and concluded that CRAs influence the autonomy of municipalities more now than the past three decades.

Forbes et al. (1974) summarized the controversies around municipal ratings and their effects on interest costs to municipalities. They presented a methodology which would enable a more objective appraisal for municipal credit quality. Secondary market investors still consider credit rating as an indicator of the underlying intrinsic credit quality of the ULBs (Cole et al, 1994, Callhan & Waymire, 2007). Linking bond ratings to performance is important, particularly, in a government setting where credit rating remains a key feature of municipal debt management. Alfonso (2009) studied the impact of rating changes to State and municipal governments on bond returns in Mexico. He found that rating upgrades are followed by greater bond returns.

Using an ordinal Probit model, Amagoh (2006) investigates the impact of population variables on municipal bond ratings. The study indicates that high population has a favourable impact on bond ratings. A panel data analysis taken up by Capeci (1991) indicates that both credit ratings and borrowing rates respond to fiscal indicators in ways that are consistent with the view that credit markets can impose some discipline on municipal fiscal behaviour. Larry et al. (1991) and Daniels and Ejara (2009) examined municipal bond rating discrepancies and their impact on interest yield premia. Yinger (2009) develops a regulatory framework to balance societal objectives with a rating agency's business interests and emphasized on the need for regulation of municipal bond ratings. Serve (2007) carried out a quantitative analysis on European local governments so as to find out the driving factors of the ratings. The results of discriminant analysis suggested that the main determinants of ratings are GDP, local unemployment rate and fiscal performance ratios. Municipal bond issue costs remain largely hidden from public view. Ely, Martell and Kioko (2013) examine the factors associated with rating fees using a decade of Texas municipal bond issuance data. The findings provide evidence that CRAs retained pricing power following credit crisis despite reputational quality.

The literature on Indian municipal ratings is relatively scant. There have been a few case studies highlighting specific municipalities. One such case study was undertaken by National Institute of Urban Affairs (NIUA) in 1999 on Ahmedabad Municipal Corporation. The issue was rated AA(SO) by credit rating agency CRISIL, indicating a high degree of credibility. The Indo-US FIRE(D) Project Note-10 (1998) analysed the issues that have emerged relative to the regulation of local borrowing and recommended a framework for a regulatory system. The Indo-US Project Note 20 (1999) stressed that while rating is a key element in accessing capital markets, these ratings have also come to be recognized as important indicators of urban competitiveness. Kundu and Samanta (2011) emphasized on the mandate of producing global cities, disciplining them enough to adhere to the rigours of the credit rating agencies, which is a precondition to access capital market and other innovative source of funding. Srikumar (2010) described her experience with credit rating of urban local bodies in India over the past decade. She stressed that municipal ratings facilitated understanding of municipal credit quality and has created greater awareness in the larger financial markets for this asset class.

Research methodology

Initially, a historical analytical approach will be applied to help us conceptualize the emergence of municipal bond as a dominant instrument for accessing capital market by the ULBs and also to bring out the relevance and significance of municipal rating service. This will be followed by an empirical analysis of ratings of various municipalities awarded by Fitch, a recognized rating agency in India.

Given the nature of the problem, Discriminant analysis has been considered to be an effective technique for the analysis. SPSS (Version 15.0) software has been used for the purpose of the analysis. The empirical study covers a period of three years although the historical references are drawn ever since the inception of the concept of ULB rating in India in 1998 till date.

Relevant data have been gathered from various ULBs and also from the rating agency Fitch, which offers municipal rating service to Indian municipalities. Both financial and non-financial performance data have been collected for the purpose of the study. Various research journals, working papers, occasional papers and government pronouncements and rating reports of credit rating agency Fitch constitute the source material for the study.

Conceptual framework of municipal rating

Municipal bond market

Municipal bond market in India is still at a nascent stage. Ahmedabad Municipal Corporation (AMC) was the first to issue municipal bond in February 1996 followed by Bangalore Mahanagara Palika (BMP) in December 1997. Despite the initial success of AMC and BMP, Indian Municipal bond market has not yet evolved fully and it accounts for a mere 0.1% of the total corporate bonds traded in India. According to the Report of High Level Expert Committee on Corporate Bonds and Securitization (December 23, 2005), the total mobilization through Municipal bonds from 1994-95 to 2004-05 has been Rs 851 crore, limited only to a handful issuers. Municipal bond market in India has not realized its full potential due to a number of constraints. These include, among others, regulatory restrictions on investment allocation by long term investors, dominance of banks and poor image of municipalities. Against this backdrop, the credit rating exercise initiated by the Government of India for the ULBs under Jawaharlal Nehru National Urban Renewal Mission (JNNURM) is a commendable step.

Benefits of municipal rating

Credit rating of municipalities is a signal to potential lenders or investors or partners about the strength, weaknesses and prospects of the municipal corporations. It is an important determinant of cost of borrowing when the municipalities try to access debt markets. A credit rating of municipalities increases their choice of debt instruments, be it bond, or pooled finance instrument or commercial bank loan at favorable terms of borrowing. At the same time, it allows them to better match their debt structure with the useful life of the assets being financed. Bond issues backed by independent credit ratings may foster a strong culture of market discipline, superior disclosure level, better financial planning, fiscal prudence among ULBs and lead to a greater efficiency in their operations. A higher rating provides the ULBs with leverage over their weaker counterparts in raising fund at easier terms. Even if a municipality does not have any plan for bond issue, it may seek ratings. A good rating speaks of its sound health, which the municipality might capitalize in its future ventures.

Municipal rating drivers

In assigning a rating to a municipality, rating agencies usually focus on the state of the economy, municipal debt structure, financial condition, demographic factors, management practices of the governing body and administration. Besides, efficiency in urban infrastructure and service delivery mechanisms, community participation and accountability of urban local bodies or para-statal agencies also influence ratings in a significant way. Tangible evidence of implementing the mandatory reforms under Jawaharlal Nehru National Urban Renewal Mission (JNNURM), sticking to cost and time budget within agreed time frames favours good rating grade. Major improvements in the coverage and efficiency level in the delivery of key civic services without creating a dent on its finance trigger a good rating. Less dependence on the state government for financing or other needs is also a positive factor for rating. The less a municipality depends on government grants, the more it is insulated from the volatility in government's performance. Presence of a strong industrial concentration within the municipality's geographical jurisdiction helps municipalities get better ratings. Ratings appreciate the migration to double-entry accrual system by the ULBs and uses of accounting software that provides comfort in handling transaction volumes.

Municipal rating scale

Fitch uses the same rating scale for municipalities which it uses for long term debt ratings. It is an 8- point scale divided into two broad groups: Investment grade and Speculative grade. The scale runs AAA through D.

Rating symbol	Description
AAA	Highest safety
AA	High degree of safety
A	Adequate degree of safety
BBB	Moderate safety
BB	Moderate risk of default
B	High risk of default
C	Very high risk of default
D	Expected to be in default soon

With these eight rating symbols, modifiers {'+' or plus/ '-'/minus} can be used to reflect the comparative standing within the category.

Empirical analysis

For the purpose of evaluation of the municipal rating service, a single rating agency, Fitch Ratings, which has been rebranded as India Ratings and Research Pvt. Ltd., has been selected. The selection of Fitch Ratings is guided by the availability of sufficient data in respect of award of ratings. The soundness of a CRA's performance depends upon the integrity of its methodology to rate issuer performance. Therefore, a rating agency's performance rests on how efficiently it develops and applies its rating methodology to evaluate an issuer's creditworthiness with respect to the concerned issues. The present analysis is aimed at evaluating Fitch's rating methodology by developing a model based on Fitch's data on various rating parameters. Fitch's rating reports present a list of ratios of the issuers' financial performance. The present model is formulated on those published financial ratio data. The central concern of the model is to ascertain the extent of influence of the financial ratios of the issuers on municipal credit rating.

For the purpose of the present study a sample of 100 municipalities had been selected initially. All these 100 municipalities had been rated by India Ratings and Research Pvt Ltd (Fitch) at different points in time during the last three years (2009-10 to

Table 1: Analysis of case processing summary

Unweighted Cases	N	Percent
Valid	23	26.1
Excluded missing or out of range group codes	0	0
At least one missing discriminant variable	65	73.9
Both missing or out-of-range group codes and at least one missing discriminant variable	0	0
Total	88	100

Table 2: Group Statistics

GR	Mean	Std. Deviation	Unweighted Valid N	Weighted Valid N
1 OITI	87.1125	14.65964	16	16.00
EETI	34.50063	18.98647	16	16.00
CETE	36.4563	13.61024	16	16.00
GITI	8.7125	10.85430	16	16.00
DPTI	2.8063	2.48099	16	16.00
RI	22868.79	26691.48240	16	16.00
RS	5128.2125	5848.48753	16	16.00
2. OITI	32.1000	6.29841	7	7.00
EETI	39.000	24.66622	7	7.00
CETE	31.9429	15.68214	7	7.00
GITI	43.6714	24.53727	7	7.00
DPTI	.9571	1.40458	7	7.00
RI	969.8943	868.69968	7	7.00
RS	204.6386	225.07927	7	7.00
Total: OITI	70.3696	28.76134	23	23.00
EETI	35.8739	20.41061	23	23.00
CETE	35.0826	14.06697	23	23.00
GITI	19.3522	22.69457	23	23.00
DPTI	2.2435	2.34343	23	23.00
RI	16203.91	24333.38711	23	23.00
RS	3629.7335	5357.33149	23	23.00

2011-12). Out of these 100 municipalities, adequate data could be collected in respect of 88 rated municipalities. The rest 12 could not provide enough inputs required for the analysis. Therefore, the study is conducted over 88 samples. The rating grades of these 88 municipalities vary across the scale. The observations have been clubbed in two groups depending on their respective rating grades:

Group 1 — Municipalities having rating grades A and above [42 samples]

Group 2 — Municipalities having rating grades BBB and below [46 samples]

A discriminant analysis function has been developed to study the relative impact of rating factors, i.e. financial ratios on the overall rating grades. At the same time, the authenticity of the classification of the observations is also tested.

The discriminant function for this analysis is:

$f(X) = A_1X_1 + A_2X_2 + A_3X_3 + \ldots\ldots + A_nX_n$

Where,

$X: (X_1, X_2, X_3 \ldots\ldots\ldots X_n)$

A_i is standardized canonical discriminate function coefficients associated with 'X_i'.

X_i denotes ith key financial ratio, as has been considered by Fitch for credit rating.

India Ratings and Research (Fitch) designates the following 7 financial parameters, mainly ratios, as key indicators of municipalities' financial performance while justifying its rating rationale:

1. Own Income to Total Income (OITI)
2. Establishment Expenses/ total Income (EETI)
3. Capital Expenditure/ Total Expenditure (CETE)
4. Grant Income/ Total Income (GITI)
5. Debt Payment/ Total Income (DPTI)

Table 3: Test of equality of group means

	Wilk's Lambda	F	Df 1	Df 2	Sig.
OITI	.190	89.404	1	21	.000
EETI	.989	.228	1	21	.638
CETE	.977	.409	1	21	.492
GITI	.474	23.231	1	21	.000
DPTI	.862	3.357	1	21	.481
RI	.821	4.587	1	21	.044
RS	.813	4.829	1	21	.039

Table 4: Eigenvalues

Function	Eigenvalue	% of variance	Cumulative %	Canonical correlation
1	8.261 a	100	100	.944

a. First one canonical discriminant function was used in the analysis

Table 5: Wilk's Lambda

Test of functions	Wilk's lambda	Chi-square	df	Sig.
1	.108	38.952	7	.000

Table 6: Standardised Canonical Discriminant Function Coefficients

Variables	Function 1
OITI	1.443
EETI	.894
CETE	.870
GITI	.292
DPTI	-.059
RI	.168
RS	.227

Table 7: Structure matrix

Variables	Function 1
OITI	.718
EETI	-.366
CETE	.167
GITI	.163
DPTI	.139
RI	.053
RS	-.036

Table 8: Unstandardized canonical discriminant function coefficients

Variables	Function 1
OITI	.112
EETI	.043
CETE	.061
GITI	.018
DPTI	-.027
RI	.000
RS	.000
Constant	-12.177

6. Revenue Income (RI)
7. Revenue Surplus (RS)

The selection of the key financial ratios is based on the consistency of the relationship between the variables and the robustness of the model, measure of robustness being the probability of correct classification in this context.

Table 2 displays descriptive statistics for each variable across groups and for the total sample. The mean is the average value. The standard deviation measures the viability or spread of the values. Discriminant analysis assumes equal variances. Therefore, the standard deviations should not vary greatly across groups. Valid N is the number of cases with non-missing values. Weighted N value is weighted by the weight variable.

Table 3 contains Wilk's lambda, the F statistic, its degree of freedom and significance level. Wilk's lambda is the ratio of the within-group sum of squares to the total of sum of squares. Wilk's lambda ranges from 0 to 1. Strong values indicate strong group differences. Values close to 1 indicate no group differences. The F statistic is a ratio of between-group variability to the within-groups variability. The F statistic has a numerator (df 1) and denominator (df 2) degree of freedom. The numerator and denominator degrees of freedom are used to obtain the observed significance level. If the significance level is small (say, smaller than 0.10) this indicates that the group differences are significant. If this significance value is large (Say, more than 1.0), this indicates that the group differences are not significant. In the present case, except for EETI, all other ratios show a significant group difference. This implies that the two groups under consideration bear a wide difference as evidenced by their respective significance level. Wilk's lambda too supports this claim as in most of the ratios, value of Wilk's lambda is quite high.

Table 4 displays eigenvalues, the percentage of variance, the cumulative percentage and canonical correlations for each canonical discriminant function. The eigenvalue is the ratio of the between-groups sum of squares to the within-group sum of squares. The largest eigenvalue corresponds to the eigenvector in the direction of the maximum spread of the group means. The square root of eigenvalue provides an indication of the length of the corresponding eigenvector. Small eigenvalues result in eigenvectors of essentially no length and account for very little of the total dispersion.

The percentage of variance column allows us to evaluate which canonical variable accounts for most of the spread. The cumulative % is the percentage of the total dispersion accounted for by the canonical variables. The canonical correlation measures the association between the discriminant scores and the groups. Values close to 1 indicate a strong correlation between the discriminant scores and the groups.

Wilk's lambda **Table 5** is the proportion of the total variance in the discriminant scores not explained by the differences among the groups. It ranges between 0 and 1. Values close to 0 indicate that the group means are different while values close to 1 indicate the group means are not different. A chi-square transformation of Wilk's lambda is used along with the degrees of freedom to determine significance. If the significance value is small (say, less than 0.1), this indicates that group means differ. If the significance value is large, say more than 0.1, this indicates that group means do not differ.

When variables are measured in **Table 6** different units, the magnitude of an unstandardised coefficient provides little indication of the relative contribution of the variable to the overall discrimination. Standardizing the coefficients allows examining the relative standing of the measurement. The coefficients of the canonical variable are used to compute a canonical variable score for each case.

Therefore, the discriminant function for Fitch's Municipal Rating is:

$f(X)= 1.443X_1+0.894X_2$ +

Table 9: Classification Results

Group			Predicted Group Membership 1	2	Total
Original	Count	1	33	9	42
		2	17	29	46
	%	1	78.6	21.4	100.0
		2	37.0	63.0	100.0
Cross-validated	Count	1	36	6	42
		2	17	29	46
	%	1	85.7	14.3	100.0
		2	37.0	63.0	100.0

a. In cross validation, each case is classified by the functions derived from all cases other than that case.
b. 70.5% of the original grouped cases are correctly classified
c. 73.9% of cross-validated grouped cases are correctly classifies

$0.870X_3 + 0.292X_4 - 0.059X_5 + 0.168 X_6 + 0.227X_7$

The relative contribution of each variable to the total discrimination has been measured by this function. From the above table, it is clear that OITI (X_1), the value being 1.443, has the highest relative contribution to the discriminant score followed by the DPTI (X_5), at the order of -0.059, which negatively contributes to the total score. The magnitude of contributions made by EETI (X_2), CETE (X_3), GITI (X_4), RI(X_5) and RS (X_6) are 0.894, 0.870, 0.292, 0.168 and 0.227 respectively **Table 7**.

In the structure matrix pooled within-groups correlations between discriminating variables and standardized canonical discrimiant function variables are ordered by absolute size of correlation within function. The structure matrix contains within-group correlations of each predictor variable with the canonical function. This matrix provides another way to study the usefulness of each variable in the discriminant function. In this matrix, the variables are ordered by the size of the correlation. The strongest correlation in this case is in respect of OITI, the weakest being EETI.

The coefficients displayed in **Table 8** are the coefficients of the canonical variable. The coefficients are used to compute canonical variable scores for each case.

Table 9 measures the degree of success of the classification for this sample. The number and percentage of cases correctly classified and misclassified. It shows the degree of correct classification of the samples. Here, the number and percentage of cases correctly classified have been worked out. Out of 42 cases originally classified in Group-1, 33 (78.6%) cases have been rightly classified and 9 (21.4%) cases have been wrongly classified. Again out of 46 cases originally classified as Group-2, only 17 (37%) cases have a wrong classification, the remaining 29 (63%) cases have been correctly classified. In cross validation, which means classification of each case by the functions derived from all cases other than that case, percentage of wrong classification of Group-1 cases comes down marginally. However, in Group-2, there has not been any case of misclassification. Overall, 70.5% of original group cases and 73.9% of cross-validated cases are found to be correctly classified.

Thus, it appears that more than two-thirds of the samples have been rightly classified, implying soundness of the model developed. The present analysis substantiates Fitch's methodology of Municipal rating to a considerable extent. This analysis supports the Fitch's rating to the extent of 73%. The rest may, however, be explained by non-inclusion of qualitative variables in the present analysis.

Inferences from the analysis

1. Out of the 7 variables considered for the award of ratings, OITI appears to be most significant as evident by the standardized canonical discriminant score. The next most significant variable is EETI, having a score of 0.894. Except the DPTI, all other variables bear a positive correlation with the discriminant score. DPTI holds a negative correlation to the tune of 0.059. Municipalities can enhance their rating prospect by improving OITI most. On the other hand, the less the DPTI ratio, the better is the rating of the municipality. Hence municipalities must try to lower the DPTI ratio so as to improve their ratings. Thus, municipalities may focus their attention in controlling the variables accordingly.
2. It is evident from the analysis that 70.5% of the original grouped cases have been properly classified implying the robustness of the model. The degree of misclassification, being around 30%, however, is not very high. Misclassification of an observation implies wrong grouping of issues. It may mean that while assigning a rating, Fitch might not depend on financial ratio data alone. There might be qualitative parameters as well, which have bearing on the ratings. Qualitative information vary across municipalities and may include a proposed expansion or development projects, a change in governance composition, removal of a quota restriction or a political turmoil affecting the functioning of the municipalities and many a diverse event. The cases of misclassification, thus, may also be attributed to the subjectivity inherent in the process of rating.

Conclusion

Municipalities with high OITI or 'own income to total income' ratio fared batter in getting good rating. In other words, OITI ratio has the highest impact on ratings. The better this ratio, the better will be the rating grade for the municipality. Quite naturally, municipalities with greater income generating capacity score better than those who are largely dependent on the government grants. Next to OITI, follows the ratio of establishment expenses and capital expenditure to total expenditure ratios. The more a municipality spends on building infrastructure, the better are the civic facilities. Thus, municipalities may improve their ratings by spending more for developing civic infrastructure.

DPTI or Debt payment to total income ratio bears a negative correlation with rating grades. The more the debt burden of a municipality, the less is the available surplus for funding civic facilities and undertaking developmental works. Therefore, municipalities should try to generate their internal surplus and reduce dependence on external borrowing.

Besides, focusing on the financial ratios, municipalities should also concentrate on the various administrative and managerial issues that might pull their ratings down. For example, computerization, of accounting and networking of municipal functions is a basic need of the hour. Proper maintenance of records and easy and quick retrieval of the same are all crucial to the efficient functioning of any municipality. Proper handling of the complications arising out of urbanization is something which needs to be dealt with very carefully. Municipalities must be transparent in their operations. Corruptions can be reduced, if not eliminated, to a large extent, if things are made open to public scrutiny.

The model developed in the study reveals that more than two-thirds of the cases were correctly classified. This implies that there is a minor degree of rating overlap. In other words, the present model explains more than two-thirds of the classifications into group I and group II correctly. Robustness of any rating model is testified with respect to its degree of correct classification. The present model satisfactorily qualifies that test. The misclassifications to the extent of less than one-third may be attributed to the non-inclusion of qualitative information in the present discriminant model.

There is no denying that the time has come when government bodies are to rub shoulder with their corporate counterparts for gaining market share. Therefore, emergence of professionalism in the management of cost and finance is a basic necessity for the ULBs. Cost accountants have a major role to play in streamlining the costs of the ULBs and driving them ahead along a competitive path. The findings of this paper may guide municipalities to pinpoint their shortfalls and to highlight their strength. Once a municipality knows where it lacks, it may make an effort to improve which may ultimately earn it a good rating. Getting a good rating gives municipalities an extra mileage as they can raise capital at lower cost. It also helps municipalities negotiate various contracts in favourable terms. Ultimately, all these benefits accrue to its stakeholders in the long run.

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FINANCIAL MANAGEMENT PRACTICES OF URBAN LOCAL BODIES IN WEST BENGAL – A CASE STUDY OF BARASAT MUNICIPALITY

The data at Barasat Municipality indicate that there is a huge scope of treasury management as surplus money remains unutilized for a long time in the normal & special current and normal savings account/s

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Municipal accounting reforms in India are of three decades old. To start with during 1980s and 1990s we saw only two experiments at Mumbai Municipal Corporation and Chennai Municipal Corporation. In both the occasions, the double entry accrual-based accounting system was introduced as condition imposed by the World Bank against their loan sanctioned to these Municipal Corporations for their development programmes. In Mumbai Municipal Corporation, application of double entry accounting system was restricted to a water supply and sewerage project and was not applied to the municipal corporation's entire accounting operations. On the other hand, the Chennai Municipal Corporation converted their accounts into accrual-based double entry system for their entire accounting operations.

The second phase of municipal accounting reforms took place during the early part of 1990s. In Gujarat, six Municipal Corporations and one municipal body (Anand) applied accrual base double entry system. That was done so as to satisfy the preconditions of World Bank's financial assistance to the Gujarat Urban Development Projects.

The third phase of municipal accounting reforms took place after 1998. During this phase ULBs Tamil Nadu started following accrual-based accounting system as part of a state-wide municipal accounting reform programme. In Jaipur (Rajasthan) and Tumkur (Karnataka) municipal bodies, at the behest of the Asian Development Bank (ADB), adopted this type of accounting system. Broad municipal reforms were also undertaken at the same time in the Mirzapur municipal corporation (Uttar Pradesh) under the GAP (Ganga Action Plan), Bangalore Municipal Corporation and Indore Municipal Corporation.

In the last decade, i.e., 2000 – 2010, in West Bengal, 'Kolkata Urban Service for Poor' (KUSP) project has been taken up by the Government of West Bengal (GOWB), and the project was funded by DFID, United Kingdom. The 'Change Management Unit' (CMU), a registered society had been set-up under the control of the Municipal Affairs Department (MAD), Government of West Bengal, to execute, guide and monitor the total project and its imposed conditions. Primarily accounting reforms set as a precondition of project funding for 39 Kolkata Metropolitan Area (KMA) ULBs and subsequently for 85 non-KMA ULBs.

As the Indian municipal sector has witnessed varied municipal accounting reforms since inception, it is an appropriate time to evaluate them for understanding the issues related to their implementation.

After 74th Amendment (CAA) of the Indian Constitution, ULBs got the status of the 3rd. -tier Government. On the preview of 74th CAA, GoI has prepared National Municipal Accounting Manual as a part of ULB's Capacity Building programme. Simultaneously, GoWB has introduced and implemented accrual-based double entry accounting system under the guidance and monitoring of 'Change Management Unit' (CMU) in 126 corporations and municipalities including the newly established Dunkuni Municipality. Only the Kolkata Municipal Corporation (KMC) is excluded from the programme.

ULBs in the State of West Bengal

Being the third tire of governance, in urban areas, urban local bodies (ULBs) are expected to play a vital role in the development of the urban areas. In West Bengal we can see different categories of ULBs. These are as follows:
(i) Six Municipal Corporations;
(as per GO. No. 442/MC/O/C-9/4A-3/2006 dated 24/09/2010);
(ii) Eight ULBs of X category
(iii) 61 ULBs of Y category;
(iv) 52 ULBs of Z category & Hill area ULBs.

Thus in the state of West Bengal we can find total 127 urban local bodies (ULBs).

The problem

According to West Bengal Municipal Act, 1993 & Finance Rule of Government of West Bengal, every ULB has to open current account/s with any nationalized bank for its banking, generally in treasury-linked branch of the concerned banks. It is in line with the RBI guideline.

Before the introduction of accounting reforms initiated by GOI, GOI or GOWB had issued specific orders to open new and separate bank account(s) for every project / scheme / fund when these governments used to send / transfer any specific-purpose fund to the ULBs. This was most likely due to avert diversification of funds and make easier accounting of the said fund by just checking in fund balance or fund expenditure in the pass book / bank statement. The '*conversion of accounts from cash book based single entry system to an accrual based double entry system*' procedure has been undertaken as the main tool in the accounting reforms. Before introduction of accounting reforms, ULBs used to keep their accounts neither properly nor in a systematic manner. Actually, it was being maintained in a haphazard manner on 'cash basis' only. To gather knowledge on the procedure and effectiveness of the accounts during that time, relevant audit reports and various MIS reports may be checked. Therefore, number of bank accounts of ULBs was going to an uncontrollable number day-by-day, as these bodies had not closed bank accounts assigned for a particular fund even after the implementation of the concerned scheme. This may be due to these bodies' irregular way of handling of funds resulting into getting even negative balance in the bank ledger while having positive balance in passbook and vice versa.

In the year 2008, the Barasat Municipality had twenty-three bank accounts out of which three accounts were current accounts and 16 accounts were normal savings accounts. Yielding rate of current account is negative and that of normal savings account is 4% on an average. This data indicate that there is a huge scope of treasury management as surplus money remains unutilized for a long time in the normal & special current and normal savings account/s.

GoWB has represented the said reforms as accounting reforms by converting previous cashbook based single entry system, but accounting reforms should not necessarily mean only the conversion of accounts to accrual-based double entry accounting system. The proper utilization of fund is also to be seen. The CMU on behalf of GOWB provided very poorly designed and useless software to cater to the needs in the area of accounting in ULBs. This software is not put to periodic up-gradation to be time-tested. If the reforms in this area are to be efficient not only the system of accounting is to be changed but also the scope of it is to be enhanced so as to take within its umbrella certain items of incomes and expenditures like collection of various taxes, fees and user charges, etc.

Findings

After analysis of primary data of the Barasat Municipality, the following data relating to cash may be observed:

After analysis of the above-mentioned table, following questions may crop up (see **Table 1**):

1. Is there any necessity of maintaining large number of bank accounts until now, especially on the face of the fact that to maintain and reconcile such large number of accounts, it requires huge work force, person-hours, etc.?

An in-depth analysis hints at certain causes for maintenance of bank accounts in such a large number. Basically, most of the ULBs are functioning at the whims of elected (or backdrop political player/s) people's representative/s who are often engaged in act/s that are not in line with written laws or their intentions. These elected members usually force officials to use fund/s to serve their vested interests and which most of the occasions do not match the interest of the

ULB. Ideally, every ULB should have to maintain one current account in any nationalized bank. Additionally, a very few accounts can be maintained, which need not be current accounts, to follow fund accounting. In case of Barasat Municipality, there are three current accounts instead of one. In these accounts, the last six years' average balance is INR 936.03 lakh, which does not only have any yielding but also attract few folio / bank charges. Four bank accounts were opened to account for various funding. Other accounts had been opened to facilitate political wishes at the cost of the concerned ULB.

2. Why is the apathy of making use of efficient treasury management tools when the ULBs are in need of more financial resources to serve their purpose?

Most of the ULBs are facing financial problems and they are depending on grant, contributions and subsidies from GOI & GOWB. Still, they are reluctant to use treasury management tool for effective management of their money. As per our findings, causes of non-usage of such tool are ignorance, lack of knowledge and lack of will of the councilors and municipal officials. This tool can generate earnings by utilizing idle money. In case of Barasat Municipality, after part application of some tools they increase their interest income by 1355.79% i.e., from INR 442,059 in the financial year 2006-2007 to INR 64,35,449.35 in the year 2011-2012.

3. Is there any necessity of opening new bank accounts, as per the orders of GOI and GOWB for the new funds/ projects/schemes, where accounts are being maintained under the new double-entry system?

From simple banking point of view, separate accounts are required for receipts and payments.

4. Has not the time come to train the personnel to work more efficiently and to make themselves aware of the need of functioning independently and for the benefit of the ULBs?

Table 1: Year-wise Bank details of Barasat Municipality

Year	No. of Bank A/cs	No. of Current A/cs	No. of Savings A/cs	No. of Special A/cs	Average Balance (in Rs. Lakh)	Total yielding (in %)	Rate of Yielding (in %)
2006-07	17	5	12	0	879.93	4.42	0.50
2007-08	18	5	13	0	1632.45	4.59	0.28
2008-09	20	5	15	0	2158.05	12.64	0.59
2009-10	21	5	15	1	1898.56	21.52	1.13
2010-11	22	5	16	1	1888.81	52.31	2.77
2011-12	26	5	14	7	1762.56	64.36	3.65

Table 2: Incidence of Idle Money in Current Accounts

Name of the fund/Project	First date of Receipt	First date of Payment	1st Receipt Amount (in Rs.)	1st Payment Amount (in Rs.)
KUSP	28/08/2004	10/01/05	500,000	200,000
JnNURM Ph - i	24/11/2007	11/03/08	22,884,400	980,400
JnNURM Ph - ii	13/06/2009	15/09/09	117,705,900	544,939
RAY	08/10/2012	28/11/2013	6,00,000	31,500

Systematically designed training programmes should be introduced to improve the potentiality and workable knowledge of personnel who are engaged in maintaining accounts of the ULBs, as every person has different attitude, domain, knowledge and political identity. In case of Barasat Municipality, out of eight accounts personnel, six are having arts or science background including that of the Finance Officer and Accountant, and four others are involved in active politics.

Another note-worthy point in this regard is that due to faulty policies of the government's treasury management in ULBs is not becoming that efficient. Huge amount of money is to be kept in current accounts with no or negative yielding. Policy changes could enable the ULBs to use the money for the benefit of them in particular and for the benefit of the society in general. Following table may justify such view (see **Table 2**).

a) Most of the funds have been received in advance or much before the time of actual payment and remain idle for a long period in the account before

> **WHY IS THERE APATHY IN MAKING USE OF EFFICIENT TREASURY MANAGEMENT TOOLS WHEN THE ULBs ARE IN NEED OF MORE FINANCIAL RESOURCES TO SERVE THEIR PURPOSE?**

actual disbursement or payment.

b) Security deposits @10% are normally deducted and kept idle in current account or normal savings for minimum 6 months.

c) Security deposits for Building plans are also kept idle in the current account or normal savings for an indefinite period, as in 99% of cases building plans are deviated from the original one and the security deposit amount has been forfeited.

d) Earnest money deposits collected from various parties are kept in accounts for an average period of three months and one month, respectively for the successful and unsuccessful bidders. However, these funds are rarely managed.

End note

In the process of collection of data from ULBs of West Bengal, special importance should be given to KMA-municipalities and corporations, as in KMA-ULBs, rate of urbanization is very high and they are large by population, by number of wards and by turnover. They have ample scope of fund and assets management. But they are also suffering from various problems in this area. Thus, it should be wise from research point of view to give importance to large or critical ULBs in gathering data.

Generally, there are some problems in collection of data from the government departments. Therefore, minimum 6 to 8 months' time is required to collect data from these ULBs. Not only their annual accounts but also daily entry in the accounts, Appropriation Register, Assets Register, Security Deposit & Earnest Money Register, Deposit Payable Register, Cash Book & Pass Book/Bank Statement, Investment Register, Land Register (if any) etc., will have to be checked. Annual reports published by MAD and DLBs are the primary sources of data. All bank details i.e., average deposit, bank charges, interest income and interest payment are required to be tabulated carefully as data are haphazardly maintained. MA

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Abbreviations used

DLB	:	Director of Local Bodies
MAD	:	Municipal Affair Department
KMA	:	Kolkata Metropolitan Area
KMDA	:	Kolkata Metropolitan Development Authority
ULB	:	Urban Local Body
JnNURM	:	Jawaharlal Nehru National Urban Renewal Mission
KUSP	:	Kolkata Urban Services for Poor
CMU	:	Change Management Unit
BSUP	:	Basic Services for Urban Poor
KMC	:	Kolkata Municipal Corporation
CAA	:	Constitution Amendment Act
GOI	:	Government of India
GOWB	:	Government of West Bengal
DFID	:	Department for International Development

CMA Kalyani Karna
Cost Accountant at
Kalyani & Co., Delhi

Government accounting system and the role of Cost and Management Accountants

The cost and management accountant plays a pivotal role in government accounting because the Government has constituted the ICAS to advise the Government in cost pricing and for framing the appropriate fiscal and tax policies

"Writing laws is easy, but governing is difficult"- Leo Tolstoy. Government means Central (Union) Government, or a State Government, or a Union Territory Government, or all of the three as the context may imply (as stated under Government Accounting Rules 1990).

Government accounting process and system

The account of government of India is shown under three heads:

1. Consolidated fund: Consolidated Fund is constituted under Article 266(1) of Constitution of India. The consolidated fund includes the following revenues, and credits:

- Revenues received in the form of taxes like Income tax, Customs, and Excise.
- Non tax revenues.
- Loans raised by Government by issuance of Treasury Bills and public notifications.
- Loans from international institutions, and foreign Government.
- The expenditures of Government are made from this fund on previous authorization from Parliament.

2. Contingency fund: The Contingency fund is constituted under Article 267 of Constitution of India.

- The contingency fund is held by Secretary to the Government of India.
- The advances from this fund are made to meet unforeseen expenditure.
- This fund is more likely to the imprest account.

3. Public Fund: The public fund is constituted under Article 266(2) of Government of India.

- Public fund includes the debt not covered under consolidated fund.
- The expenditures made from the public fund do not need prior authorization from Parliament.

The government accounting is made on the cash basis not accrual basis. Indian Government Accounting Standards (IGAS) are formulated for cash basis system of government accounting. However, on recommendations of Twelfth Finance Commission, Indian Government Financial Reporting Standards (IGFRS) are formulated for accrual basis of government accounting. Financial statements of government consist of annual finance account and annual appropriation accounts of government (union, state or union territory). The system of government accounting follows single entry and double entry system. However, a portion of accounts are prepared on the basis of double entry system. All the expenses of government are classified under five heads (**Figure 1**):

Objectives of government accounting

The main objectives of government accounting are as follows:

- To forecast receipts and payments during the year with maximum possible accuracy.
- To estimate whether the receipts are sufficient to recover the payments or not.
- Comparison of actual with estimated receipts and payments.
- Taxation policies and government expenditures are determined on the basis of government accounts and budgets.

Government accounting and financial reporting

First of all, the question here arises is, why there are separate set of accounting and financial reporting standards for government and other business enterprises. The prime beneficiaries of the government's financial reports are creditors, citizens, and their representatives. But the prime beneficiaries of financial reports of businesses are creditors, and equity investors. The government is accountable to the citizens for resources entrusted while the equity investors in the business are more concerned towards the rational use of their investments made and the profits earned by the business. Creditors of the business enterprises are more desirous to know about the profits earned by the enterprises during the year to meet their debt obligations and the securities of their debts. But the creditors of government are more concerned about the ability of the government

Figure 1

Figure 2

Chairperson	• Deputy Comptroller & Auditor General
Ministry of Finance	• Controller general of Accounts
Ministry of Railways	• Financial Commissioner, Railways
Ministry of Defence	• Controller General of Defence Accounts
Department of Posts	• Secretary, Posts
Department of Telecommunication	• Member, Finance
Ministry of Finance	• Additional Secretary, Budget
Reserve Bank of India	• Deputy Governer or his/her nominee
National Council of Applied Economic Research	• Director General
Institute of Chartered Accountants of India	• President or his/her nominee
Institute of Cost Accountants of India	• President or his/her nominee
Four States	• Secretary, Finance from four states by annual rotation
Office of Comptroller & Auditor General of India	• Director General, Accounts as Secretary

to generate more revenues, ability to levy taxes, and competence of the cost of obligations in terms of revenues. So, in order to cater the needs of users of government financial reports, separate accounting and financial standards are set for government.

Government Accounting Standards Advisory Board (GASAB)

Comptroller and Auditor General of India with support to the Government of India had constituted Government Accounting Standards Advisory Board (GASAB) on August 12, 2002. The composition of this board is shown in **Figure 2**.

Responsibilities of Government Accounting Standards Advisory Board:

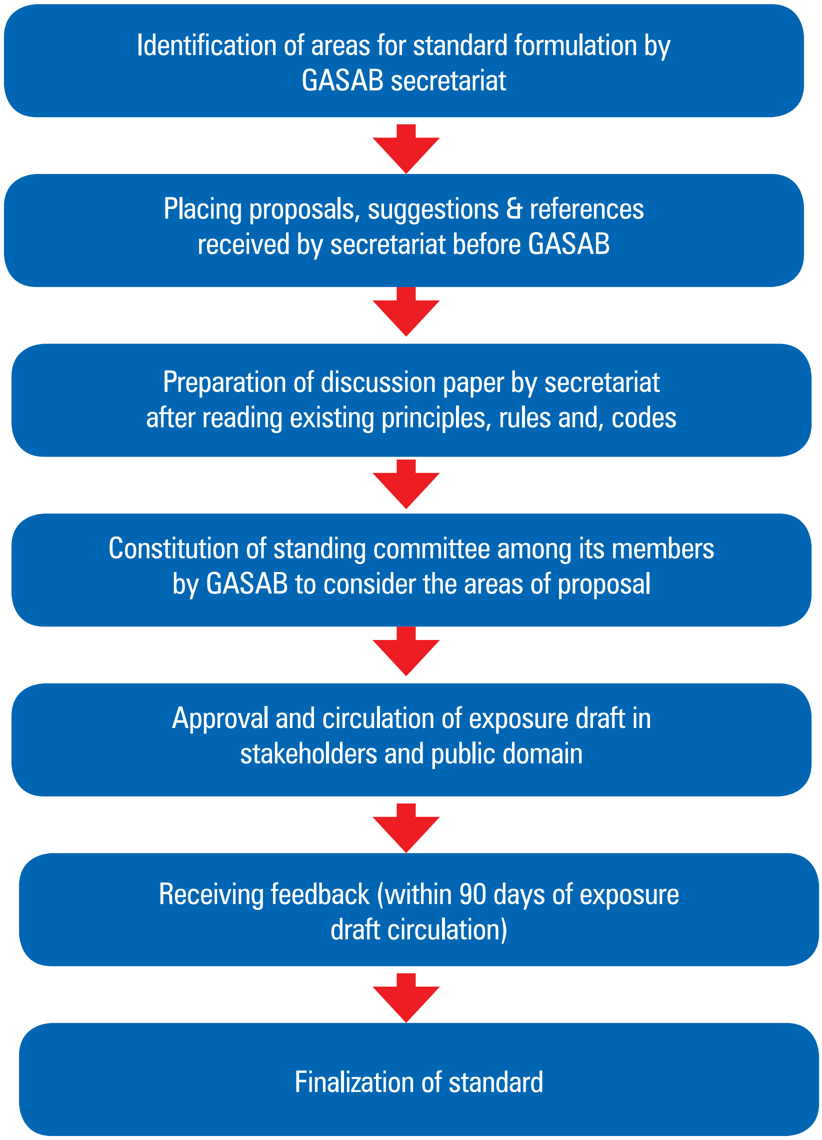
The responsibilities of Government Accounting Standards Advisory Board revolve around the following:

- Formulation of accounting and financial reporting standards for government accounting.
- To reflect any changes in government accounting standards.
- Establishment of the guidelines for the implementation of standards.
- Consideration of significant areas of improvement in the accounting and financial reporting standards.
- To formulate the accounting and financial reporting standards in a way to make it easily understood.

Procedures involved in formulation of accounting and financial reporting standards

The government accounting and financial reporting standards are prepared by GASAB. The steps involved in the formulation of these standards are shown in **Figure 3**.

Figure 3



Role of Cost and Management Accountant (CMA) in government accounting

The role of CMA in government accounting can be described under these various acts:

Customs act, 1962- Section 146A

1. Cost and management accountant are authorized to represent before:
- Advance ruling,
- Antidumping authority,
- Settlement commission,
- Customs house agent.

2. Cost and management accountant can certify the grant for refund of special additional duty.

3. Special audit can be conducted by CMA in certain cases when chief commissioner directs such audit.

4. Certifying Performa CI & C2 and Statement of cost of production under Anti Dumping as prescribed by Ministry of Commerce;

Central Excise Act, 1944

1. Section 35Q: Appearance by authorized representative.

Cost and Management Accountant

Figure 4

Appendix	Details of appendix	Documents to be certified by CMA
11A	Data sheet for advance authorization application on self declaration.	Production and consumption data of the manufacturer/supporting manufacturer (of preceding three licensing years.
14-I-F	Form of legal agreement for EOU	Annual progress report.
14-I-H	Guidelines for sale of goods in domestic tariff area (DTA) by EOU/EHTP/STP/BTP units	Application for DTA sale permission.
14-I-I	Procedure to be followed for reimbursement of CST on supplies made to EOU/EHTP/STP.	Refund of Central Sales Tax
15A	Application for certification of export performance of units in the pharmaceuticals and biotechnological sectors by the regional offices of DGFT.	Export performance
15B	Application for certification of export performance of units in agro chemicals sectors by regional offices of DGFT.	Export performance
22D	Certificate for the offsetting of export proceeds.	Offsetting of exports proceeds
23	Register for accounting the consumption and stocks of duty free imported or domestically procured raw materials, components, etc. allowed under advance authorization/DFIA.	Consumption of inputs and stock data under advance license.
26	Certificate of CA/CMA/Cs for the issue of EPCG/Annual EPCG authorization.	Last Three years Export performance for Calculating Average Export Performance
26A	Certificate of CA/CMA/Cs for the redemption of EPCG/Annual EPCG authorization.	Exports proceeds
35	Formats for claiming duty drawback on all industry rates/refund of terminal excise duty.	DBK II, DBK IIA, DBK III, DBK IIIA
ANF 3A	Application for Grant of Status Certificate	Exports proceeds
ANF 3B	Application Form for Served From India Scheme (SFIS)	Exports proceeds
ANF 3C	ANF for Policy Para 3.13.4 For Agri. Infrastructure Incentive Scrip under VKGUY	
ANF 4A	For Advance Authorization (Including Advance authorization for Annual Requirement) / Advance Release Order (ARO)/ Invalidation letter	Production and Consumption data of the manufacturer / supporting manufacturer of the preceding three licensing years.
ANF 4B	For Fixation / Modification of Standard Input Output Norms (SION)	Production and Consumption data of the manufacturer / supporting manufacturer of the preceding three licensing years
ANF 4C	For Fixation or Revision of DEPB Rates / Fixation of Brand rate of DEPB for SAD component	Statement containing Shipping Bill No, Date, FOB Value, towards which SAD Claim is filed.
ANF 4F	Redemption / No Bond Certificate against Advance Authorization	Statement of utilization of goods.
ANF 4I	GEM REP Application	Statement of Exports made during the preceding licensing year.
ANF 5A	Application form for EPCG / annual EPCG Authorization (under zero duty / 3% duty/ EPCG duty remission scheme	Statement of Exports made/services rendered during the preceding three licensing year.
ANF 5B	Statement of Export for Redemption of EPCG/ Annual EPCG Authorization	Statement of Exports made during the preceding licensing year.
ANF 8	For claiming Duty Drawback on All Industry Rates/Fixation of Drawback Rates/Refund of Terminal Excise Duty	DBK Refund / Rate Fixation of Terminal Excise Duty.
ANF 8A	Application for payment of interest on delayed refund of Duty Drawback (DBK)/ Terminal Excise Duty (TED) on deemed exports/Central Sales Tax (CST) on supplies to Export Oriented Units (EOU). (DBK)/Terminal Excise Duty (TED) on deemed exports/ Central Sales Tax (CST) on supplies to Export Oriented Units (EOU).	DBK II, DBK IIA, DBK III, DBK IIIA

can act as an authorized representative before any authority in Customs Excise & Service Tax appellate Tribunal (CESTAT).

2. Special audit under Section 14A and 14AA:

The special audit under section 14A and 14AA can be conducted by practicing cost accountant appointed by Commissioner of central excise. The expenses of audit and remuneration of cost accountant will be payable by excise department.

3. Certificate for Average Cost of transportation under Rule 5.

4. Certificate of Cost of production of captive consumed goods in accordance with CAS-4 (under Rule 8).

5. Cost and management accountant acts as facilitators under CFC Scheme in filing various Excise and Service Tax Returns.

6. Under Customs & Central Excise

Duties Drawback Rules, 1995, exporters should furnish a certificate from CMA as to consumption and cost of processing chemicals used for its processing.

Finance Act, 1944 (Service Tax):

1. Section 83 of Service Tax Act, 1944 provides that Cost and Management Accountant can act as an authorized representative before any authority in Customs Excise & Service Tax appellate Tribunal (CESTAT).
2. Section 72A of Service tax Act, 1944 provides that Cost and management accountant can conduct special audit for determining the correct value of service tax.

Ministry of Corporate Affairs (MCA)

1. CMAs are authorized for certification of returns and various forms required by a company from its Incorporation to Liquidation.
2. CMAs can also act as representatives on behalf of their clients before Company Law Board.
3. CMAs in practice can act as Certifying Filing Centers for purpose of certification of various types of e-forms and their filing with Registrar of Companies periodically as per provisions of Indian Companies Act, 1956 and Limited Liability Partnership (LLP) Act.

Certification by CMA under Foreign Trade Policy

The CMA can certify several documents of DGFT under Foreign Trade Policy. And the CMA can certify all Documents which are required by Exporters under the EXIM Policy and Procedure.

The following documents are required to be certified by cost and management accountant under foreign trade policy. The details of Appendices and nature of certification required are shown in **Figure 4**.

Other roles of Cost and Management Accountants

- Half-yearly Internal Audit of Stock Brokers and Credit Rating Agencies as prescribed by the Securities Exchange Board of India (SEBI)
- Parliament Standing Committee has suggested inclusion of Cost Accountants in "Accountant" definition under Direct Tax Code. This will authorized CMA to do Tax Audit.
- Internal and Concurrent Audit under National Securities Depository Ltd (NSDL).
- Certifying the application for License and renewal to act as Surveyor and Loss Assessor under Insurance Regulatory and Development Authority.
- Under the Central Electricity Regulatory Commission, a CMA can certify various forms.
- Compliance audit in case of consortium lending.
- Stock Audit and Concurrent Audit of many Public Sector and Private Sector Banks.
- CMA can act as legal representative before Appellate Tribunal as per Section 17 of TRAI Act 1997.
- Certification of various forms prescribed under Directorate of Advertising and Visual Publicity (DAVP).
- CMAs in practice are authorized for certifying various returns and to issue Compliance Certificate as per the formats of various ministries of Government of India. Such ministries are, Ministry of Finance, Ministry of Commerce, Ministry of Corporate Affairs, Ministry of Chemicals and Fertilizers, Ministry of Textile, Ministry of Consumer Affairs, Food and Public Distribution.

Conclusion

Government accounting system and process differ from commercial accounting. The reason for the difference may be attributed to the profit making motives of other commercial concerns. But the government has to govern the country and administer the departments in effectively and efficiently. Therefore, the government accounts are designed in such a way so as to cater the needs the public at the lowest possible tax structure. Article 150 of Indian Constitution mandates that the accounts of the Union and of the States shall be kept in such form as the President may, on the advice of the Comptroller and Auditor General of India, prescribe. The cost and management accountant plays a pivotal role in government accounting. The Central Government has constituted an Indian Cost Accounts Service (ICAS), to advise the Government in cost pricing and for framing the appropriate fiscal and tax policies. The cost and management accountants are eligible for Indian Cost Accounts Service (ICAS). The other roles of played by the CMAs inculcate the following:

- Helps in improvement of cost competitiveness.
- Financial reporting and strategy formulation.
- Performance management.
- Internal audit and management audit.
- Project Consultancy.
- Materials Management.
- Tax Planning.
- Revival of Sick Units.
- Incentive Plans.
- Energy Audit.

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www.eximguru.com
www.cybex.in MA

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THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

(Statutory Body under an Act of Parliament)

IMPORTANT ANNOUNCEMENT

Ref. No: BOS/01-05/14-15

Dated: Kolkata, 27th May, 2014

Applicability of The Companies Act, 2013 for December 2014 CMA Examinations (Intermediate Course and Final Course)

It is hereby notified for general information that the ***Sections*** of ***The Companies Act,2013 as specified in Annexure I for Intermediate Course and Annexure II for Final Course**, **along with its Rules framed thereunder shall be applicable for the CMA Intermediate Course and CMA Final Course Examinations respectively for December,2014 Examination. Supplementary Study Material containing detailed on relevant sections would also be hosted in the website by 10th June,2014.***

Accordingly, there will arise corresponding change in the following papers in the Chapter/s specified hereunder :

Syllabus 2012		
Course	Paper/Subject	Chapter/s
Intermediate	Paper 5 – Financial Accounting (FAC)	5,8
	Paper 6 - Laws, Ethics & Governance (LEG)	5, 7
	Paper 12- Company Accounts & Audit (CAA)	3, 4, 7, 8,10, 15,16,17,18
Final	Paper 13 - Corporate Laws & Compliance (CLC)	1, 2,9
	Paper 18 - Corporate Financial Reporting (CFR)	1, 2, 3
	Paper 19 - Cost Audit & Management Audit (CMAD)	6,10
Syllabus 2008		
Course	Paper/Subject	Chapter/s
Intermediate	Paper 5 - Financial Accounting (FAC)	7, 8, 10
	Paper 6 – Commercial & Industrial Law & Auditing (CIA)	6, 7
Final	Paper 16 - Advanced Financial Accounting & Reporting (AFAR)	1, 2, 3
	Paper 17 - Cost Audit & Operational Audit (COA)	5

Note:

(i) The provisions of the Companies Act, 1956 which are still in force would form part of the syllabus till the time their corresponding or new provisions of the Companies Act,2013 are enforced.

(ii) If new legislations are enacted in place of the existing legislations, the syllabus would include the corresponding provisions of such new legislations with effect from a date notified by the Institute.

(iii) For reference and benefit of CMA students, the Department would release relevant material.

(iv) For applicability of Companies Act,2013 for June 2015 examinations would also be notified in due course and appropriate reading material would also be made available to students well in advance before examinations.

(v) The sections notified for December 2014 Examination were notified by MCA,GOI w.e.f.12.9.2013.

Institute reserves the right to modify applicability of sections of the Companies Act,2013. All concerned are hereby requested to note this announcement/clarification and facilitate to make a proper and wide publicity to meet the concern of stakeholders on the stated subjects.

This issues with an approval of the competent authority.

CMA Chiranjib Das
Joint Director, Head - Academics Department (Board of Studies)
Secretary to the Board of Studies Committee

'CMAs ARE BEST SUITED TO DOING BETTER COST ALLOCATION TO GET RID OF NON-VIABLE PRODUCTS'

CMA MOHAN V TANKSALE
Chief Executive, Indian Banks' Association & Former CMD, Central Bank of India

MA Would you kindly brief us on the role of Indian Banks' Association in the governance of Banking & Financial systems in India?

IBA was set up in 1946 with 22 members with a view to discuss issues of common interest among banks. Over a period of time, it emerged as the "Voice of the Indian Banking Industry". The vision of IBA is "to work proactively for the growth of a healthy, professional and forward looking banking and financial services industry, in a manner consistent with public good." With increasing freedom in the banking sector, there is a need for self-regulation in the system and IBA is doing exactly that. Bankers come together under the aegis of IBA to formulate model policies on various aspects of banking. IBA provides a platform for all banks to discuss issues of common interest. Since Corporate Governance is one of the key areas of interest to our members, IBA is very much involved in this matter. IBA always favoured good governance in banks and financial institutions. As these institutions are custodian of public money, good Governance is extremely important. The initial move towards corporate governance in banks can be traced in the Advisory Group on Corporate Governance for the RBI Standing Committee on International Financial Standards and Codes, chaired by Dr. R.H. Patil, which submitted its Report in 2001. Subsequently in 2002, RBI constituted a Consultative Group of Directors of Banks and Financial Institutions under the chairmanship of Dr A S Ganguly to review the supervisory role of the Banks and Financial Institutions. It is one of the important committees on Corporate Governance which suggested "fit and proper "criteria for appointment of directors in banks. At that time IBA had provided our views on the recommendations of the Ganguly Committee and we had organised a seminar only for Corporate Governance in Banks. Now, P J Nayak Committee to Review Governance of Boards of Banks in India has come out with comprehensive recommendations. IBA has constituted a working group to examine the recommendations and will be responding to RBI shortly.

MA What have been the major initiatives taken during your tenure with this organisation?

I took charge of IBA from December, 2013. Our interactions with RBI and Government of India have been frequent since then. I am in the process of enhancing the image and visibility of IBA within and outside India. I have ensured that IBA's views were sent on all Discussion papers or reports put up by RBI in public domain. Important RBI papers on which IBA has given the views are as under:

- RBI's draft guidelines on capital and provisioning requirements for exposures to corporates having unhedged foreign currency exposure.
- RBI's discussion paper on Framework for Revitalising Distressed Assets.
- RBI's Draft Report on Implementation of Counter Cyclical Credit Buffers.
- RBI's Draft Framework for 'Dealing with Domestic Systemically Important Banks' (D-SIBs).
- Committee on Comprehensive Financial Services for Small Businesses and Low Income Households (CCFS).
- Committee to Study the Feasibility of Implementation of GIRO based Payment System in India.

IBA is a member of various international organisations such as International Banking Federation (IBFed), Institute of International Bankers (IIB), Society for Worldwide Interbank Financial Telecommunication (SWIFT) and Asia-Pacific Rural and Agricultural Credit Association (APRACA). My intention is to leverage their expertise in areas of interest to IBA. Within IBA manpower planning and capacity building is underway to equip the staff to meet the demands of the banking industry. Go Green is another initiative taken by me here. Increasing the members of IBA is another area I am focusing now.

MA With the changing economic condition in the country, how has the role of IBA changed over the years?

In the past, IBA functioned as a link between RBI, banks and the public. It served as a platform for the common operational problems of the members. It acted as a nodal agency for propagating government policies among nationalized banks. During this time IBA formulated Ground Rules & Code of Ethics for banking transactions. Dissemination of information to members and wage negotiations on behalf of public sector banks were the other two functions of IBA in the past. As Banking Industry evolved, IBA had adopted itself to the changing landscape of the banking sector. We have expanded our horizon of activities, though certain functions like wage negotiation, information dissemination etc are still being performed, additional roles like lobbying for protecting the interest of the banks, examination of various issues pertaining to banks, devising model policies for adoption by banks and striving to promote best practices in banking. With RBI we have pre-policy and post-policy meeting and also issue specific meetings. With the Government also we have pre-budget meeting and various other meetings on most of the issues affecting the banking sector. Besides this, senior management of IBA is represented in various committees set up by RBI and Government of India.

MA What according to you, would be the cost implications of Basel III norms for Indian banks?

Under Basel III norms, which are being implemented in phases between April 2013 to March 2019, banks need to have a 8% core capital ratio and total capital adequacy ratio of 11.5% against 9% prescribed now, including a capital conservation buffer of 2.5%. According to RBI estimates, the PSBs will require an additional capital to the tune of 4.15 trillion of which equity capital will be of the order of 1.4- 1.5 trillion. In general, higher capital and tighter liquidity requirements under Basel III will increase the capital requirements in Indian banks, as in other countries. However, the actual impact would vary in different countries depending upon the amount of exposures impacted under Basel III, existing capital structure of banks, i.e., extent of reliance on non-common equity capital elements, existing rules relating to regulatory adjustments, credit growth experienced by the economies and existing credit to GDP ratio. The impact of these requirements on the profitability of banks would depend upon sensitivity of lending rates to capital structure of banks and sensitivity of the credit growth to the lending rates. Though IBA has not done a study on cost implications of Basel III norms, according to studies by international agencies, suggest that all other things being equal, Basel III would reduce return on equity (RoE) for the average bank by about 4 percentage points in Europe and about 3 percentage points in the United States. While many large international banks are required to increase their equity capital by more than 100% over the existing levels, many Indian banks would certainly not be required to increase their equity levels by that order. Therefore, the impact on their RoE is likely to be much less than 3 to 4 percentage points as observed in the case of US and European banks.

MA How could proper Cost Management system play an important role in the overall growth of banking sector in India?

Along with income growth, cost reduction is important in any institution. Cost Management play a pivotal role in fields such as 1) New Product Pricing : CMAs could play important role in striking the right price of the product with due consideration being given to the risk / reward / resource allocation aspects. No product or as a matter of fact, no institution can last long if there is a defect in pricing of the products. 2) Better Cost Allocation: I think cost accountants are best suited to do this job. It has to be kept in mind that cost allocation / pricing is not a one off exercise, it is a continuous process, which should continue throughout the life of the product to keep it competitive. 3) Decision on discontinuation of a product: CMAs can play an important role in taking this decision as no financial institution can afford to continue with the products , which are not giving net positive return. 4) Other Areas : Cost Management Accountants could be useful for treasury departments, Stress testing , Scenario Analysis etc

MA What could be the role of the CMA professionals in helping the banks in carrying out Risk Based Internal Audit (RBIA) of banks? Can you identify other significant role of the CMAs in the banking sector?

CMA's can support the Banking and Financial Institutions in the areas of their operations such as Pre-Sanction Level, Post-Sanction Level, Monitoring of the stressed accounts, Risk Based Internal Audit in Banks, Business and Asset valuation, Development of Cost Management module for different operations of the Bank, Evaluation of cost of different transactions, Effective Cost Management in banking transactions, Strategic Cost Management, Risk Management in Banking Sector and new product pricing, etc.

MA How could growth in credit to retail segment and small and medium enterprises anticipated given the banking option to industry houses?

In the recent bank licensing given by RBI, out of 25 applicants, only 2 got bank licenses. Both of them are not from any industrial houses. Hence that aspect is very clear. Further, all the new banks have to open 25% of their branches in the unbanked areas. Hence, banks will be giving focused attention on retail and SMEs segment as well.

MA As per a report, the combination of bad and restructured loans is at least 10 per cent of total banking assets in India. Do you feel Basel II and Basel III provide for sufficient provisions to take care of this?

Basel III seek to address issues relating to systemic risk through various measures including (i) leverage ratio; (ii) capital conservation buffer; (iii) countercyclical capital buffer; (iv) addressing procyclicality of provisioning requirements; (v) addressing interconnectedness; (vi) addressing the too-big-to-fail problem; and (vii) addressing reliance on external credit rating agencies. Some of these measures are related to provisioning against stressed assets which is higher than the existing practices. Let me also highlight that Basel II and Basel III aim to make the banking system stronger. It is also pertinent to note that banks are making adequate provisions to not only bad loans but also to standard advances and restructured advances. Hence to my mind the provisions are adequate at this point in time.

MA How effective would it be in promoting financial inclusion by providing licenses to new banks, what other ways could be adopted to reach financial services to unbanked population?

One of the reasons for new bank licenses was to encourage financial inclusion as a large number of people are excluded from the formal financial finances. However, banks have already started various initiatives for financial inclusion. Financial inclusion targets given to banks are being met and they are in the process of covering all villages in the country. As of now, Business Correspondents (BCs) are the most popular means adopted by banks for financial inclusion. Efforts are on to scale up the BC model to the next level. Mobile Banking is also used in some areas where there are bottlenecks in personnel to move from one place to another. Besides, as I mentioned in question no: 7, banks have to open 25% of the new branches in the unbanked areas to enable the hitherto unbanked people to access formal source of finance.

MA Please brief us on the relationship of RBI and IBA?

IBA and RBI are having a very cordial relationship. Since IBA is the voice of the Indian Banking Industry, any issue affecting the banks are taken up for discussion with RBI for resolution. There are regular and specific interactions with RBI depending on the nature of issue of our members. Besides these IBA is represented in the key committees set up by RBI. IBA is often consulted by RBI to understand the consensus of the banking sector on any policy related matters affecting the banks. I have also covered our relationship with RBI in detail in question no: 2 & 3.

THE ROAD TO REFORM: BOARDING AT THE BUDGET

Irrespective of whether the taxes are high or not, the consensus in India is that there has been a kind of taxation terrorism where overzealous and strong-arm collection of taxes has become the norm without much regard to principle, prospectivity, precedent and plight

Dr. Ravindran Pranatharthy
Advocate – Indirect taxes & IPRs

A statue of Lady Godiva in Coventry, UK: has our country made existing rates of taxation an onerous burden?

The first and substantive budget of the new Government is set to be unveiled on 10th July 2014. The date of 10th July has a historical resonance for taxation. According to medieval English legends, it was on this day in the year 1040 A.D that the generous, public-spirited Lady Godiva undertook her famed horse ride through her town to force her husband Lord Leofric the Earl of Mercia in the English Midlands, to rollback his oppressive taxes on the hapless citizens. When the people represented to her about the high and oppressive tolls and taxes imposed by her husband, she was moved by their plight and pleaded with her ruler husband for tax relief. But the unsympathetic Earl was unsparing and taunted her by asking her to undertake the ordeal of riding naked on horseback through the town of Coventry in order to accede to her petition for tax relief. Lady Godiva rose to the challenge and was said to have taken the horse-ride by dressing in skin-complexioned, tight-fitted costume to hoodwink the debauched Earl and satisfy his test. The residents who didn't know of her plan kept their windows and doors closed to ensure that not a glance fell upon the noblewoman on horseback and to preserve her modesty. The Earl had to lift the taxes and Lady Godiva became a heroine to her people for achieving the relief from oppressive taxation. In the case of our own country, it is a moot point whether the levels of taxation have reached an oppressive stage and whether the economic circumstances of the country have made existing rates of taxation an onerous burden. Irrespective of whether the taxes are so high or not, the current consensus in India is that there has been a kind of taxation terrorism by which is meant the overzealous and strong-arm collection of taxes without much regard to principle, prospectivity, precedent and plight. It is against high hopes that the new Government will tackle the baggage of the past, hopefully ushering in a phase of optimism and growth. In India, the opportunity of budget-making is used to set policy directions for the ensuing year and it is well known that some of the measures of the budget in any year might have far reaching impact into the future. This Budget day is therefore keenly awaited. In this Article, we will look at some of the areas of Union Indirect Taxation that cry out for urgent and deep-going reforms.

The CENVAT Credit System

The CENVAT Credit is the cornerstone of the Value Added System in Central Excise and Service Tax. In the absence of guiding principles of tax credit in the parliamentary statutes governing the grant of CENVAT Credit, viz., the Central Excise Act, 1944 and the Finance Act, 1994, executing tinkering and mismatches of policy and procedure have been rife in the CENVAT Credit System. This has inexorably led to excessive litigation before the Appellate Forums and the Courts. Immediate reforms in the area of CENVAT Credit that would reduce litigation and boost the growth of Manufacturing and Services in India are outlined as follows:-

(a) Separating principles from procedures and policy from details:-

The CENVAT Credit Law is at present wholly confined to the CENVAT Credit Rules, 2004. The Rules are a piece of subordinate legislation and do not have the same sanctity as an Act of Parliament. The Fundamental Principles of CENVAT Credit should be separated from the subordinate rules and enduringly enshrined in the respective Main Acts. Some of its principles are:-

- There is no one-to-one correlation between input and output.
- The physical presence of an input in the final output is not required.
- CENVAT Credit availment is a vested legal right that should not be denied without due process.
- The CENVAT credit is an instantaneous credit, that is, available immediately after the receipt of the goods and services backed by tax invoices.
- CENVAT Credit should never be denied for procedural and technical faults.
- If inputs and input services as well as capital goods are proved to have been received and used in the business of generating output goods or output services, the CENVAT Credit should be liberally allowed.
- The definition of 'input services' should be liberated from the restrictive clutches put in place since April 2011. Any input service that qualifies for deduction as business expenditure under the Income Tax Act, 1961 should be declared eligible for CENVAT Credit.

(b) Refund of unutilized Cenvat credit:

The Cenvat credit Rules have no express provision for refund of unused Cenvat credit balances, except in the context of exports. It is in this area that the Cenvat credit scheme compares poorly with state Vat systems which allow refund of unused input Vat credit. Despite collecting a comparable quantum of indirect taxes on domestic manufacture and services as the state Vat does on sales of goods, the central government does not refund the piled-up Cenvat credit. A policy decision to grant refund of unused Cenvat credit would go a long way in making Cenvat a true-blue value-added tax system and level the playing field between the state Vat and the Cenvat. Ideally, the principle of refund of unutilized Cenvat credit should be put in the main Acts and not be left to the vagaries of the rules which are changed at will. Since its genesis in 1986, the union indirect tax credit system has gone on for 28 long years without providing for the refund of unutilized input credit balances. When states have permitted refund of unused vat credit on a prescribed basis, it

THE RESULTING STIMULUS WILL WITNESS A LARGER NUMBER OF TAXABLE TRANSACTIONS ACTUALLY BOOSTING GOVERNMENT REVENUE AND COMPENSATING FOR THE TAX CONCESSIONS

does not stand to reason that the central excise department should continue to deny the benefit.

(c) A Settlement Scheme for pending CENVAT Credit litigation:-

Parallel with conceptualizing and incorporating principles and policy in the Main Acts of Parliament concerning Central Excise and Service Tax, the government may set about eliminating the huge and unproductive pending litigations in CENVAT Credit by announcing a Settlement Scheme under which on the payment of, say, a tenth of the pending demands by the litigants (without insisting on interest and penalty), the Department may literally put paid to all the cases at various levels of pendency. If we remember that the number of pending cases at the benches of the Indirect Tax Tribunal have crossed one lakh, the urgency of drastic reform will be far too apparent.

The long-playing promise of integrated Excise & Service Tax return (EST)

While the Cenvat Credit Rules have integrated the tax credit between the central excise duty and Service tax by enabling both manufacturers and service providers to avail both excise duty and service tax credits almost seamlessly, the respective tax returns are still forced to stand apart. The ER-1 and ST-3 have to be filed separately, forcing businesses which have tax outgo on both central excise duty and service tax to lose credit money in trying to separate the inseparable credits. A unified EST will help businesses to seamlessly take and use Cenvat credit irrespective of whether they are remitting central excise or service tax. It will reduce regulatory compliance costs and make for a very effective utilization of the tax credits. The EST and its synchronized credit usage will give a tax-cost factor advantage for the Indian Manufacturing. It is hoped that the Budget would introduce the long-pending EST.

Relook at exorbitant interest rates

At present the tax interest for delayed payment in Customs, Central Excise and Service Tax is at a whopping 18% per annum. At this rate, the interest itself is clearly more penal than compensatory. There is a compelling case for reduction of interest rates to levels prevailing in advanced GST jurisdictions in the world. It is desirable that the interest rate should not exceed 12% per annum. There is also an equally strong case for waiving interest in situations of proved economic hardship. Where the taxpayer has to pay an additional duty or tax on finalization of the provisional assessment etc, interest should run from the date of finalization and not from the date of original clearance.

Rethinking penal provisions

Certain penalties in the respective tax laws have hurt genuine and well-intentioned taxpayers more than the deliberate defaulters. A case in point is the wholly obnoxious provision in Rule 8 (3) of Central Excise Rules, 2002, which seems to have no parallel in the civilized world for its extreme penal outlook. Under this Rule, if a manufacturer is not in a position to pay excise duty within thirty days of the due date of payment, he has to forego the use of CENVAT Credit facilities and pay the ensuing tax payments in cash. He also loses the facility of monthly payment and has to pay his duty every time he makes a sale or clearance from the factory. He will have to face other penalties as well, including seizure of his goods and their confiscation for noncompliance with the provisions of this rule. The draconian rule is further compounded by the high interest rate of 18% per annum for delayed remittance of excise duty. The issue here is that, owing to adverse economic circumstances, taxpayers, at times, may not be in a position to find the money with which to remit the excise duty. The excise duty is payable on accrual basis and non-receipt of consideration from the buyers is not a ground to ask for relief and even the prospect of paying the delayed duty at a later date with a high 18% interest will not offset the punishing impact of Rule 8 (3) of Central Excise Rules. The rule deserves to be excised from the statute lock, stock and barrel.

The offences under Union Indirect tax laws were very much tightened two years ago and many of the offences are now cognizable and non-bailable. Given the penchant of some assessing officials to raise unconscionable and huge demands with impunity and regardless of precedent case laws, there is a compelling need to tone down the rigour of these provisions. There is a need to restore the original provision under which all prosecutable offences under the Union Indirect tax laws were non-cognizable and bailable. It is well known that such vigorous provisions tend to hurt genuine taxpayers rather than stem duty evasion.

Recovery of tax dues without due process

Section 87 of the Finance Act, 1994, bestows wide powers for the Executive to recover service tax dues from the defaulters. One of the methods of recovery granted in the section is the power of officials to require third parties, such as banks etc., to hand over the money or assets that may be payable by them to the defaulters and which may be in their possession, to the extent of the defaulter's due, on instructions from the officials of the Service Tax Department. Rule 6 (6A) of Service Tax Rules, 1994 utilizes the draconian power under section 87 by stipulating as follows:-

"Where an amount of service tax payable has been self-assessed under sub-section (1) of section 70 of the act, but not paid, either in full or part, the same, shall be recoverable alongwith interest in the manner prescribed under section 87 of the Act."

The Rule should be amended by stipulating that due process adjudication by show cause notice and hearing is necessary before invoking the power under section 87.

A JUDICIOUS MIX OF INCREASED CENVAT CREDIT AND REDUCTION IN CENTRAL EXCISE DUTY AND SERVICE TAX, COUPLED WITH REAL REDUCTIONS IN THE INCOME TAX RATES MAY BE JUST WHAT THE DOCTOR ORDERED FOR THE INDIAN ECONOMY

Reform of adjudication and appeal

Given the fact that hardly 10% of contested tax demands goes in favour of the Government, it is high time that a new Settlement Scheme is implemented to take a vast majority of these cases out of the Appellate stock and the Court dockets. The system of insisting on 100% pre-deposit of the demanded tax, interest and penalty with discretionary waiver should be eliminated. The abolition of pre-deposit will serve to hasten the process of appellate adjudication by saving the time spent on stay petition hearings.

Reduction in the rate of excise duty and service tax

It is clear that the Indian economy is caught in a low-growth rut and the prognosis for the current fiscal year is not too bright. The world economic outlook is at best uncertain. There is a consensus that Indian Manufacturing is in a state of decline and needs a substantial boost. Among the measures that will stimulate demand is a reduction in tax rates. In the interim budget, excise duty was reduced on select products, mostly in the Automobile & Capital goods Sectors. There is a need to retain that reduction as well as to extend the reduced rate to all the products. Simultaneously the Service Tax also needs to be scaled down to 8% to cool the inflationary heat-up in the economy. The threshold small scale exemption for service providers stands at a low of Rs 10 lakhs and deserves to be raised to a minimum of Rs 20 lakhs.

Conclusion

In India, Budget time is not only about squaring the Government's accounts and sanctioning the new expenditures. The Budget is also a time for launching policy shifts and setting the direction of required change. A judicious mix of increased CENVAT Credit and reduction in Central excise duty and Service tax, coupled with real reductions in the Income tax rates may be just what the doctor ordered for the Indian economy. The resulting stimulus will witness an increased number of taxable transactions actually boosting the Government Revenues and compensating for the tax concessions. Freeing the taxpayers from being at the mercy of taxation which is as much uncertain as it is tough will be widely welcomed and the expected positive sentiment will set the stage for re-igniting the India Growth Story. MA

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ADMISSIONS, CONFESSIONS AND RETRACTIONS IN ASSESSMENT PROCEEDINGS

Retracted confessions will not serve any purpose unless the Income Tax Department is able to mobilize evidence gathered on the basis of and apart from the confessions and admissions

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AN Income Tax Assessment is a judicial document. It is framed on the basis of evidence gathered during the course of assessment proceedings. Apart from enquiry under Section 143(3) of the Income Tax Act, 1961, the Assessing Officer is also empowered to carry on survey of the premises of the taxpayer in important cases. A survey is carried out under Section 133A. A search or seizure can be carried out under Section 132. The object of survey is not the same as that of search or seizure. Survey can take place only at a place where business or profession is carried on and not at the residential premises. The entry into the premises must be during business hours though survey operations can continue after business hours. The Assessing Officer is empowered to record a statement under Section 133A (3) (iii). Finance Act 2002 amended Section 133A to provide for impounding and retention of books of accounts during a survey. Reasons must however be recorded. Approval of the higher authorities will be required for retention of books.

Confessions

The law authorizes confession by the taxpayer before the Assessing Officer. This is especially the case during the course of search operations. In order to escape consequences of penalty and prosecution, the taxpayer can choose to confess about the extent of income not disclosed in the books of accounts and in the return of income.

The Indian Evidence Act has provisions for recording confession of the accused. Such confessions however must lead to discovery of evidence under Section 27 of the Evidence Act. A mere confession without anything more will be of no evidentiary value.

Admissions

When confronted with records, the taxpayer can choose to admit the authenticity of such records and come up with disclosures. The law also provides for retraction of confessions and admissions. There should be credible evidence for such admissions, confessions and retractions. The normal plea taken by the taxpayer is that the admission was possibly extracted under the threat of penalty or prosecution. Or the defense may be that the survey or search operation took place at an odd hour preventing the taxpayer from refreshing his memory. There have been reported cases about confessions and retractions.

In a recent case before the A.P High Court Kermax Micro Systems (India) Ltd., vs. Dy.Commissioner of Income Tax 362 ITR 13 (AP). while examining the accounts of a company, the Assessing Officer noted defects in maintenance of expense voucher. Payments were not properly recorded. The Managing Director made a voluntary statement to the effect that he would offer Rs.20 lakhs as additional income to cover deficiency in accounts. He also requested the department not to initiate penalty proceedings. However, when the assessment was completed, an appeal was filed questioning the assessment. The Commissioner (Appeals) observed that an addition made by the Assessing Officer should stand on its own legs. He took the view that no addition can be sustained merely on the basis of admissions and acquiescence. The Income Tax Appellate Tribunal however restored the addition made and the matter came up before the A.P High Court. The High Court pointed out that despite arguments, there was no retraction of the admission made by the Managing Director. Admission is no doubt an important piece of evidence. It has to be explained or retracted. The High Court made a distinction between admission and evidence collected during the course of survey. Once an admission was made voluntarily, there was no scope to make further enquiry. A lawyer cannot improve the case of the litigant. The A.P High Court dismissed the company's appeal on the ground that there was no retraction of the confession.

What does the law say?

The above case is an exception to the general rule about the law regarding confessions during a survey. The Supreme Court had itself held in Pullangode Rubber Produce Co Ltd 1991 ITR 18 that the admission of a person is an important piece of evidence though it may not be conclusive. Judiciary has consistently taken the view that confession made during survey proceedings is not conclusive. It is open to the assessee to establish by cogent evidence that the same was not proved and not correct. The Delhi High Court considered the matter in detail in CIT vs. Dhingra Metal Works 328 ITR 384. It pointed out that while Section 132(4) of the Act specifically authorizes an Officer to examine a person on oath, Section 133A does not permit the same. A statement recorded on oath may be used in evidence but not a statement recorded under Section 133A. The Officer is not authorized to administer oath. It pointed out that the use of the word 'may' in Section 133A (3) (iii) of the Act clarifies beyond doubt that the material collected by way of a statement recorded during the survey is not a conclusive piece of evidence by itself. It is open to the person who has made the admission to show that it is incorrect.

Board's Instructions

It is not uncommon to hear about threats being used by Departmental Officers to extract confessions and admissions. The Finance Minister had assured Parliament that no confession shall be obtained during survey or search. This was in the Budget speech in 2003-2004. The Board had issued Letter F.No.286/2/2003. IT (Inv.II) dated March10, 2004 to the effect as under:

"Confession of additional income during the course of search and seizure and survey operation – regard- instances have come to the notice of the Board where the assessees have claimed that they have been forced to confess the undisclosed income during the course of the search and seizure and survey operations. Such confession, if not based upon credible evidence, are often retracted by the concerned assesses while filing returns of income. In these circumstances, such confessions during the course of search and seizure and survey operations do not serve any useful purpose. It is therefore, advised that there should be focus and concentration on collection of evidence of income which leads to information on what has not been disclosed or is not likely to be disclosed before the income-tax Departments. Similarly, while recording statement during the course of search and seizures and survey operations no attempt should be made to obtain confession as to the undisclosed income. Any action on the contrary shall be viewed adversely.

Further, in respect of pending assessment proceedings also, Assessing Officers should not rely upon the evidences/materials gathered during the course of search/survey operations or thereafter while framing the relevant assessment orders."

These instructions also find a place in the Citizens' Charter issued by the Central Board of Direct Taxes.

Conclusion

The law on the subject is clear that confessions and admissions secured during survey or search and seizure operations can be used in finalizing assessment proceedings only if there is no retraction. The retraction should be swift and fast. Retracted confessions will not serve any purpose unless the Income Tax Department is able to mobilize evidence gathered on the basis of and apart from the confessions and admissions. MA

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AGENDA FOR THE NEW GOVERNMENT

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Tasks ahead

The new Government is busy with the budget, which is expected to contain measures for the year and policy commitments for the future. Steps to tackle inflation and fiscal deficit are in the cards. It is realised that there is no immediate solution to our longstanding problems.

Federation of Indian Chambers of Commerce and Industry (FICCI) is for encouragement of manufacture, improvement of infrastructure, development of power, skill development and reform of labour statutes, speeding up Government machinery, regulating the regulatory authorities, expediting environmental clearances and rationalising import duties. These are some of the many suggestions made.

Resource constraints

Resource, no doubt, is a major constraint. There is a vast reservoir of idle wealth including cash and gold apart from Indian moneys abroad, which can be mobilised by a rational fiscal policy and effective administration. Even a partial mobilisation of the considerable resources can meet the challenges ahead. Not all money abroad is black money, since most moneys have been diverted by availing the loopholes in our fiscal laws. Every industrial house has a member of the family as a non-resident with no accountability as regards his investments abroad or on the profits earned by the concerns floated by them abroad through associate concerns in India.

Tax measures

Among the recommendations relating to taxation, repeal of retrospective amendments and speeding up GST implementation are some. Review of Direct Taxes Code is another. Though Parliamentary Committee had made some recommendations as regards the Direct Taxes Code Bill, 2010, it is a poor specimen of a model tax law being a mere rehash of the unwieldy earlier law, so as to require dumping the same to be replaced by a simpler law learning from the principles of taxation and aligning the domestic law to principles of international taxation already committed by India in Double Taxation Avoidance Agreements with most countries.

Existing litigation in the matters of transfer pricing in international taxation is unwisely extended to domestic transactions, when the presumed consideration of loss of revenue for the State on collusive price arrangements has no application for domestic transactions. There is also a need to align company law with income tax in respect of accounting requirements.

Double taxation implicit in Minimum Alternate Tax (MAT), a tax which was described by late Mr.N.A.Palkhivala as "constitutionally illegal, unsound and morally repugnant" is now unfortunately extended to domestic transactions as well as Alternate Minimum Tax (AMT).

Tax Reform Commission for both direct and indirect taxes manned by members from trade and industry, profession and administration is an immediate need.

Unfortunately there has been an administrative bias, not only in the Direct Taxes Code, but also in every annual Finance Act creating problems for taxpayers in large measure in compliance requirements, leaving a long trail of litigation. Periodical extension of the scope for tax deduction at source have serious consequences even for innocent deviation, when there is absolutely no loss for revenue, wherever tax is collected from the deductees. These are matters, which require serious attention.

Provisions for deemed dividend where it is not possible for shareholders to get credit under the present law by set off of actual dividend as and when received as provided under section 2(22)(e)(iii) makes a mockery of law by recognising double taxation, one at the time of deeming stage and the other on actual distribution.

Section 14A has been mostly abused by treating even dividend, which is taxed in the hands of the company as tax-free income, so that it is another glaring instance of misdirection in the statute itself made worse by indiscriminate implementation. The system, especially as regards corporate taxation is badly in need of review.

The obsession against cash transactions by disallowance under section 40A(3), where the transactions themselves are genuine and penalties for loans and advances in cash both for acceptance and return under sections 271D and 271E equal to the amounts irrespective of the fact, whether they are unaccounted or not are other senseless measures serving as instruments of harassment.

Restoration of incentives necessary

There is need for restoration of many of the incentives which have played a major role in attracting investments.

Revision of exemption limit and slabs

A rise in exemption limit and revision of slabs is necessary to offset inflation and encourage savings.

Manufacturing industry requires special treatment. The earlier law making a distinction between earned and unearned income may well be brought back with manufacturing profits being taxed at a lower rate of tax, so as to encourage industries and to increase employment.

Procedural law

There is need for preliminary examination of returns with all enclosures and past records for better choice of cases for scrutiny. The present system of shutting out enclosures to returns makes much information unavailable to the Assessing Officer. Scrutiny, even if limited, will make the administration more effective, since the present efforts in most cases to tackle evasion fail because of the limited jurisdiction. Such failed cases of jurisdiction means loss of revenue. There is also need to enforce accountability on the part of officers of the tax administration as recommended by Rajah Chelliah Committee.

Limited amnesty is desirable

Idle wealth in the form of gold and unaccounted cash in India and hoarded moneys abroad have to be mobilised, so as to bring them to the mainstream of the economy. Limited amnesty for voluntary surrender of such income by way of subscription for infrastructure bonds would go a long way to contribute to infrastructure development, while it will reduce the impact of parallel economy. MA

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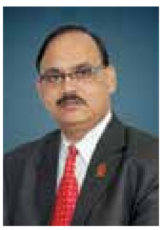
AN ANALYSIS OF WORKING CAPITAL MANAGEMENT IN SELECT ORGNIZATIONS IN THE MINING SECTOR OF ORISSA

Working capital management is considered to be a very important element to analyze the organizations' performance while conducting day to day operations, by which balance can be maintained between liquidity and profitability



CMA Dr. S.C. Mohanty
President, ICAI

Working capital is the flow of funds necessary for the working of a concern. It comprises funds invested in Current Assets, which in the ordinary course of business can be turned into cash within a short period without undergoing diminution in value and without disruption of the organization. Every company has to make arrangements for adequate funds to meet the day-to-day expenditure apart from investment in fixed assets.

A business undertaking requires funds for two purposes: –

- To create productive capacities through purchase of fixed assets, etc.
- To finance current assets required for day to day running of the business.

Working capital refers to the funds invested in current assets i.e., investment in stock, sundry debtors, cash and current assets. Current assets are essential to use fixed assets profitably. It is obvious that a certain amount of funds is always tied up in raw material inventories working progress, finished goods, consumable stores, sundry debtors and day-to-day cash requirements. However, the business also enjoys credit facilities from his suppliers who may give the raw materials on credit. Similarly a businessman may not pay immediately for various expenses. But employees are paid periodically.

Therefore certain amount of funds is automatically available to finance the current assets requirements. However, the requirements for current assets are usually greater than the amount of funds available through current liabilities. In other words, the current assets are to be kept at higher level than the current liabilities. This difference is known as working capital.

Working capital management is considered to be a very important element to analyze the organizations' performance while conducting day to day operations, by which balance can be maintained between liquidity and profitability. Maintaining liquidity on daily base operation to make sure it's running and meets its commitment is a crucial part required in managing working capital. It is a difficult task for mangers to make sure that the business function running in well organized and advantageous manner. There are chances of inequality of current assets and current liability during this procedure Firm's growth and prof-

THERE IS SCOPE FOR IMPROVEMENT IN WORKING CAPITAL MANAGEMENT IN ALL THE SELECTED ORGANIZATIONS WHICH CAN ACT AS A CATALYST IN IMPROVING THEIR PROFITABILITY AND SUSTAINABILITY

itability will be affected if this occurs and firm manger wouldn't be able to manage it efficiently.

There is no universally accepted definition for working capital. The financiers, accountants, businessmen and economist are giving different explanations for working capital. The working capital is called as circulating capital or revolving capital. In general working capital denotes the current assets. Following are some of the definitions of working capital:

In the words of Shubin, "Working capital is the amount of funds necessary to cover the cost of operating the enterprise". According to Genestenberg, "Circulating capital means current assets of a company that are changed in the ordinary course of business from one form to another, as for example, from cash to inventories, inventories to receivables, receivables into cash". According to J. S. Mill, "The sum of the current assets is the working capital of a business". Normally working capital means current assets minus current liabilities. The working capital may be positive or negative.

The Mining Industry plays an important role in the economic development of the country since it provides the basic raw-materials to the core sector Industries. Effective management of working capital in these industries will help in achieving economy in the cost if its operation and optimum financial results with ultimate benefit to the society.

Keeping this background in view an attempt has been made to evaluate the efficiency in working capital management of few selected public sector and private sector industries in Orissa engaged in mining, processing, production and manufacturing activities of products of metals and non-metals , their minerals, ores and alloys. Such an analysis is expected to show and high light the strengths and weaknesses regarding various aspects of its working capital management.

Objectives and methodology

The study has the following objectives:-

- To appraise the effectiveness of Working Capital Management in selected organizations an effective one.
- To find out the extent of the need and adequacy of the working capital of the firm.
- To evaluate the liquidity position of the company.
- To see the changes in the working capital.
- To analyse the components of working capital.

The present study is made for a period of 10 years commencing from 2002-03 to 2011-12. The data used in the study is mainly based on secondary sources of information and has been drawn from the Annual Reports and MIS Reports of Orissa Mining Corporation Limited (OMC), IDCOL Kalinga Iron Works Limited and IDCOL Ferrochrome and Alloys Limited (Wholly Owned Subsidiaries of Industrial Development Corporation of Orissa Limited (IDCOL), and Indian Metals and Ferro Alloys Limited (IMFA).

The Researcher has also collected relevant primary information regarding effectiveness of liquidity management in selected companies to supplement the Secondary information. A questionnaire was designed and administered to collect primary data regarding the approach to liquidity management followed in each of the selected organizations. The questionnaire was supplemented by personal interviews with the respondents to cross check and validate the responses.

Literature review

Saswata Chatterjee (2010) focused on the importance of the fixed and current assets in the successful running of any organization. It poses direct impacts on the profitability liquidity.

There has been a phenomenon observed in the business that most of the companies increase the margin for the profits and losses because this act shrinks the size of working capital relative to sales. But if the companies want to increase or improve its liquidity, then it has to increase its working capital. In the response of this policy the organization has to lower down its sales and hence the profitability will be affected due to this action Dong (2010) reported that the firms' profitability and liquidity are affected by working capital management in his analysis.

Another aim of working capital management is to appropriately time the outflows and inflows of cash, generally known as the cash conversion cycle, while simultaneously optimizing process costs and quality (KPMG, 2005). Cash conversion cycle is another measure of corporate liquidity management (Moss and Stine, 1993). It measures the time lag between cash payments for purchase of inventories and collection of receivables from customers. The CCC is used as a comprehensive measure of working capital as it shows the time lag between expenditure for the purchase of raw materials and the collection of sales of finished goods (Padachi, 2006).

The major reason for poor performance of an undertaking is shortage or inappropriate management of working capital (Siddarth and Das 1993). Due to lack of aproper plan for working capital requirements most firms often experience excess or shortage of working capital (Agarwal 1977). Efficient working capital management is necessary for achieving both liquidity and profitability of a company. A poor and inefficient working capital management leads to tie up funds in idle assets and reduces the liquidity and profitability of a company (Reddy and Kameswari 2004).

Concept of working capital management

There are two concepts of Working Capital

1. Gross working capital.
2. Net working capital.

The gross working capital is the capital invested in total current assets of the enterprise. Current assets are those assets, which in the ordinary course of business can be converted into cash within a short period of normally one accounting year.

Net working capital is the excess of current assets over current liabilities, or say:

Net working capital = Current assets – Current liabilities

Advantages of adequate working capital

- The firm will be able to proceed with un-interrupted flow of production.
- The company can make prompt payments which help in creating and maintaining goodwill.
- Loan facilities are easily available.

TABLE – 1

CURRENT RATIO

S.L No.	Company	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	AVERAGE
1	IDCOL Kalinga Iron Works Ltd	0.76	1.63	1.27	1.20	1.41	1.32	1.23	1.06	0.58	0.67	1.11
2	IDCOL Ferrochrome and Alloys Limited	0.75	0.65	1.31	1.27	1.69	1.54	1.49	1.32	1.90	2.66	1.46
3	The Orissa Mining Corporation Ltd.	1.30	1.45	1.63	1.65	1.91	2.11	2.22	5.81	5.92	10.02	3.40
4	Indian Metals and Ferro Alloys Limited	1.34	1.23	1.61	1.75	2.64	2.23	1.85	1.82	1.80	1.19	1.75
AVERAGE		1.04	1.24	1.46	1.46	1.91	1.80	1.70	2.50	2.55	3.63	1.93

TABLE –2												
CASH AS A PERCENTAGE OF CURRENT ASSETS												
S.NO	Company	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	AVERAGE
1	IDCOL Kalinga Iron Works Ltd	2.07%	5.14%	3.95%	6.75%	9.89%	9.14%	5.44%	1.52%	3.05%	6.42%	5.34%
2	IDCOL Ferrochrome and Alloys Limited	8.52%	8.51%	20.30%	28.13%	11.83%	9.23%	0.66%	0.59%	0.55%	0.71%	8.90%
3	The Orissa Mining Corporation Ltd.	9.27%	30.62%	50.38%	44.44%	48.81%	57.42%	53.74%	80.87%	82.49%	81.65%	53.97%
4	Indian Metals and Ferro Alloys Limited	3.96%	9.82%	3.72%	10.73%	24.36%	9.51%	1.26%	8.36%	3.64%	2.72%	7.81%
AVERAGE		5.96%	13.52%	19.58%	22.51%	23.72%	21.33%	15.28%	22.83%	22.43%	22.88%	19.00%

TABLE – 3												
CASH AS A PERCENTAGE OF TOTAL ASSETS												
S.NO	Company	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	AVERAGE
1	IDCOL Kalinga Iron Works Ltd	2.05%	0.51%	3.95%	6.71%	9.89%	9.06%	5.36%	1.50%	1.51%	3.50%	4.40%
2	IDCOL Ferrochrome & Alloys Limited	3.14%	2.66%	6.05%	11.30%	4.83%	6.33%	0.55%	0.50%	0.46%	0.56%	3.64%
3	The Orissa Mining Corporation Ltd.	7.69%	27.45%	47.57%	42.27%	46.86%	55.94%	52.67%	78.50%	78.94%	78.12%	51.60%
4	Indian Metals & Ferro Alloys Limited	2.88%	7.56%	2.88%	3.42%	8.95%	4.42%	0.63%	3.48%	1.50%	0.93%	3.67%
AVERAGE		3.94%	9.55%	15.11%	15.93%	17.63%	18.94%	14.80%	20.99%	20.60%	20.78%	15.83%

- The company may avail cash discounts and hence reduces costs.
- Ability to face crisis.

Disadvantages of inadequate working capital

- A concern, which has inadequate working capital, cannot pay its short-term liabilities in time.
- It cannot buy its requirements in bulk and cannot avail of discounts.
- It becomes difficult for the firm to exploit favorable market conditions.
- The firm cannot pay for day-to-day expenses of its operations and it create sin efficiencies, increases costs and reduces the profits of the business.
- It becomes impossible to utilize efficiently the fixed assets due to non-availability of liquid funds.

Cash flows in a cycle into, around and out of a business. It is the business life blood and every manager's primary task is to help keep it flowing and to use the cash flow to generate profits. If a business is operating profitably, then it should, in theory, generate cash surpluses. If it doesn't generate surpluses, the business will eventually run out of cash and expire.

The faster a business expands the more cash it will need for working capital and investment. The cheapest and best sources of cash exist as working capital right within business. Good management of working capital will generate cash will help improve profits and reduce risks. Bear in mind that the cost of providing credit to customers and holding stocks can represent a substantial proportion of a firm's total profits.

There are two elements in the business cycle that absorb cash –

- Inventory (stocks and work-in-progress)
- Receivables (debtors owing you

TABLE – 4												
TOTAL RECEIVABLE AS A PERCENTAGE OF TOTAL ASSETS												
S.NO	Company	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	AVERAGE
1	IDCOL Kalinga Iron Works Ltd	23.00%	14.42%	13.92%	19.48%	12.64%	14.03%	13.01%	9.41%	4.70%	4.66%	12.93%
2	IDCOL Ferrochrome & Alloys Ltd.	14.07%	12.07%	2.81%	1.64%	1.63%	0.73%	2.72%	7.84%	0.16%	0.05%	4.37%
3	The Orissa Mining Corporation Ltd.	4.00%	5.09%	2.47%	2.31%	3.35%	1.19%	0.32%	1.07%	0.42%	0.25%	2.05%
4	Indian Metals & Ferro Alloys Limited	9.58%	6.73%	6.50%	4.67%	3.00%	3.06%	3.03%	1.53%	1.42%	1.74%	4.13%
AVERAGE		12.66%	9.58%	6.43%	7.02%	5.16%	4.75%	4.77%	4.96%	1.67%	1.67%	5.87%

TABLE – 5												
INVENTORY AS A PERCENTAGE OF TOTAL ASSETS												
S.NO.	Company	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	AVERAGE
1	IDCOL Kalinga Iron Works Ltd	46.91%	54.74%	64.18%	53.82%	56.18%	62.97%	67.84%	69.15%	35.27%	41.02%	55.21%
2	IDCOL Ferrochrome & Alloys Limited	15.37%	10.54%	15.35%	13.90%	23.58%	17.94%	33.82%	25.82%	18.77%	34.69%	20.98%
3	The Orissa Mining Corporation Ltd.	11.99%	5.99%	2.43%	2.68%	3.01%	3.19%	4.68%	6.42%	5.79%	5.44%	5.16%
4	Indian Metals & Ferro Alloys Limited	16.49%	23.90%	27.81%	17.65%	15.83%	22.81%	19.57%	18.95%	19.97%	15.75%	19.87%
AVERAGE		22.69%	23.79%	27.44%	22.01%	24.65%	26.73%	31.48%	30.08%	19.95%	24.23%	25.30%
This ratio indicates that a portion of the total assets that is held by a firm is in the form of inventory												

money).

The main sources of cash are Payables (your creditors) and Equity and Loans.

Each component of working capital (namely inventory, receivables and payables) has two dimensions ...TIME ... and … MONEY. When it comes to managing working capital - TIME IS MONEY. If you can get money to move faster around the cycle (e.g. collect monies due from debtors more quickly) or reduce the amount of money tied up (e.g. reduce inventory levels relative to sales), the business will generate more cash or it will need to borrow less money to fund working capital. As a consequence, you could reduce the cost of bank interest or you'll have additional free money available to support additional sales growth or investment. Similarly, if you can negotiate improved terms with suppliers e.g. get longer credit or an increased credit limit; you effectively create free finance to help fund future sales.

Working capital management in general refers to the administration of all aspect of current assets viz. cash, marketable securities, debtors and stock and current liabilities. Working capital management policies have great effect

TABLE –6												
INVENTORY AS A PERCENTAGE OF CURRENT ASSETS												
S.NO.	**Company**	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**	**AVERAGE**
1	IDCOL Kalinga Iron Works Ltd	47.39%	54.84%	64.18%	54.11%	56.18%	63.52%	68.82%	70.21%	71.17%	75.18%	62.56%
2	IDCOL Ferrochrome and Alloys Limited	41.75%	33.67%	51.48%	39.56%	57.71%	26.14%	41.13%	30.30%	22.51%	44.28%	38.85%
3	The Orissa Mining Corporation Ltd.	14.45%	6.68%	2.58%	2.82%	3.13%	3.28%	4.78%	6.61%	6.05%	5.68%	5.61%
4	Indian Metals and Ferro Alloys Limited	22.63%	31.04%	35.87%	55.33%	43.08%	49.05%	38.93%	45.52%	48.55%	46.29%	41.63%
AVERAGE		31.56%	31.56%	38.53%	37.96%	40.02%	35.50%	38.42%	38.16%	37.07%	42.86%	37.16%

Table -7												
WORKING CAPITAL TURNOVER												
S.L No.	**Company**	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**	**AVERAGE**
1	IDCOL Kalinga Iron Works Ltd	-9.27	81.07	9.28	12.88	15.13	9.96	8.03	12.68	0.07	-1.74	13.81
2	IDCOL Ferrochrome & Alloys Limited	-9.19	-6.79	-21.11	14.62	11.71	8.94	4.28	3.49	2.83	1.69	1.05
3	The Orissa Mining Corporation Ltd.	2.92	3.60	2.86	1.50	1.49	1.40	0.88	0.51	0.75	0.47	1.64
4	Indian Metals & Ferro Alloys Limited	2.50	2.29	2.48	3.17	3.13	3.28	3.96	2.33	3.04	5.75	3.19
AVERAGE		1.36	1.47	1.33	1.17	1.16	1.17	1.21	0.71	0.95	1.56	1.21

on firms profitability, liquidity and its structural health. In order to achieve this objective the financial manager has to perform basically following two functions:

(a) Estimating the amount of working capital.

(b) Sources from which these funds have to be raised.

Analytical study

The liquidity management of the selected Public and Private Sector Organizations in mining sector in Orissa has been studied by analyzing the various components of Liquidity. The analysis has been carried out by calculating certain key ratios which are then used as a benchmark / indicators of trend to arrive at findings and conclusions.

The key ratios which have been calculated and their interpretation/analysis are as shown in **Table 1**.

It is the ratio of current assets to current liabilities. It is an important tool for the judgment of short term liabilities and solvency of a firm.

From the analysis, it is found that there was a fluctuating trend in the Current Ratio over the 10 year period in all selected companies. The Average Current Ratio was found to be less than 2:1 in all selected organizations except Orissa Mining Corporation Limited. The Current Ratio analysis reflects poor / less than satisfactory liquidity position in all selected organizations except OMC Limited.

As this ratio indicates the availability of current assets in a firm for every one rupee of current liability, so higher value of this ratio will indicate the better liquidity position of the firm it help the creditor and other short term investor to judge the final position of the firm, it helps the creditors and other short term investors (see **Table 2**).

This ratio indicates the percentage of current assets is lying as cash in hand. Although, cash in hand indicates the liquidity position of the firm, but it has some holding opportunity cost. So higher the percentage of this ratio higher would be the instant liquidity strength of firm and vice versa.

From the analysis, it is found that average cash as a percentage of Current Assets of all selected organizations was ranging between 5.34% to 8.9% except for abnormally high 53.97% in case of Orissa Mining Corporation Limited during the period under study.

This ratio does not indicate the efficiency of management in managing cash balance on hand. But it helps to get an idea about the share of cash balance in the composition of the current assets of a firm at a particular point of time. High idling cash is not desirable even though it may indicate very high liquidity (see **Table 3**).

This ratio indicates the percentage of total assets is lying as cash in hand.

From the analysis, it is found that The Orissa Mining Corporation Limited has the highest average which is 51.60% as compared to other organizations during the period under study. All the other selected organizations have a low % of cash in the composition of total assets

As the holding of cash in hand means maintaining an idle asset and it has an implicit cost, so high percentage of cash balance to total assets is not beneficial for a firm apparently. But on the other hand, it indicates the high level strength of short term liquidity of management in managing the activities of the firm. It implies only the share of cash balance to total assets (see **Table 4**).

This ratio indicates the share of trade receivable in total amount invested in the assets of the business. This is obvious that the yearly averages of this ratio show a fluctuating trend during the period under study.

From the analysis, it is found that Orissa Mining Corporation has the lowest average which is 2.05% as compared to other selected organizations during the period under study. The highest average of this ratio 12.93% is found in case of IDCOL Kalinga Iron Works Limited. Variations in the subject ratio are observed in all the selected organizations over the period under study.

But this is to be kept in mind that this ratio does not indicate the efficiency in managing receivables as well as the rapidity in collecting receivables. This is an absolute figure which only indicates the investment in receivables in relation to the total investment in assets of a firm. (see **Table 5**).

From the analysis, it is found that IDCOL Kalinga Iron Works Limited has the highest average – 55.21% as compared to other selected organizations during the period under study. The Orissa Mining Corporation Limited has only 5.16% of the total assets being represented by inventory

From the overall observation it is found that this ratio more or less indicates a moderately fluctuating trend with a low range. This is a good indicator from a business point of view as a significant increase in investment in inventory the total assets decreases the profitability as well as liquidity if the firm (see **Table 6**).

This ratio states about the percentage of share of inventory to the total current assets of the sample unit under study. From the analysis, it is found that inventory percentage ranges between 5.61 % in Orissa Mining Corporation Limited to 62.56% in IDCOL Kalinga Iron Works Limited. Wide variations are also noticed in each organization over the 10 year period under study.

From the overall observation it is found that this ratio indicates an increasing trend. This indicates an adverse impact on the profitability and liquidity of the company as substantial part of the total current asset is accounted for by inventory (see **Table 7**).

Working capital turnover ratio indicates how rapidly total investment in current assets is rotated through sales. It is a ratio of sales to averages holding of current assets of firm at a particulars point of time. Higher the value of this ratio, higher would be the efficiency of management in managing total investment in current assets.

From the table exhibiting the working capital turn over ratio of the sample units during the period under study; it is evident that the yearly average of this ratio shows a fluctuating trend during the period under study. From the analysis, it is found that IDCOL Kalinga Iron Works Limited has the highest average working capital turnover ratio as compared to other selected organizations. The average of this ratio is quite unsatisfactory in other three organizations.

Findings

After making in depth analysis of the

OUT OF THE OTHER SELECTED ORGANIZATIONS IDCOL KALINGA IRON WORKS LIMITED NEEDS TO IMPROVE ITS LIQUIDITY POSITION THROUGH BETTER MANAGEMENT OF CASH, RECEIVABLES, AND INVENTORY

relevant data relating to different components of working capital of the sample organizations, the following are the key findings:

1) The average value of inventory as a percentage of current assets shows fluctuating trend during the period under study.

2) Total receivable which includes Trade receivable and Loans and advances collectively constitute a very low percentage of the value of total assets

3) Cash is always the key consideration out of all other current assets whenever the instant liquidity of firm is being considered. It indicates the instant ability or strength of the firm to pay off its obligations as and when they arise in the normal course of business. In case of the sample organizations under study, cash in hand as a percentage of current assets is low except in case of OMC Limited where it was found to be significantly high.

4) The traditional standard of Current Ratio is 2:1 of the business world, and it is observed from the study that all organizations except OMC Limited have a less than satisfactory current ratio.

5) Working capital turnover ratio is very low in case of all the selected organizations IDCOL Kalinga Iron Works limited during the period under study.

Conclusions

On the basis of the analysis of the financial statement relating to working capital of sample units under study and from the findings of such analysis, the conclusions drawn are as under:

Orissa Mining Corporation Limited appears to be well placed in terms of liquidity as it has an adequate Current ratio, and well managed inventory position. However a major concern is abnormally high proportion of cash as a component of the total current assets. Idling cash though reflecting high liquidity may be affecting the profitability of the company.

Out of the other selected organizations IDCOL Kalinga Iron Works Limited needs to improve its liquidity position through better management of Cash, receivables, and inventory. There is scope for improvement in working capital management in all the selected organizations which can act as a catalyst in improving their profitability and sustainability.

Possible reasons for the observed difference in liquidity management between Public and Private Companies.

From the analysis of data collected in respect of the sample companies, viz. three public sector and one private sector company, no definitive conclusion can be drawn as regards observed differences in liquidity management between public and private companies as the data varies from one parameter to another. However, based on certain key ratios the following observations may be made:

a) The current ratio of IMFA (private company) is 1.75 on an average over the period of study, which is close to the standard norm of 2:1. For the other three public sector companies the ratio is skewed and ranges from 1.11 to 3.43.

b) The liquid ratio of IMFA is 0.83 on an average over the period of study, which is close to the standard norm of 1:1. For the other three public sector companies the ratio is skewed and ranges from 0.51 to 3.21.

c) In terms of debt collection period, there is not much of a variation between the three public sector and the private company as it is close to 18 days with a range of 12 days to 24 days.

d) Inventory turnover ratio of IMFA on an average over the period of study is 4.37. For the other three public sector companies the ratio is skewed and ranges from 3.74 to 14.18.

Possible reasons for no association between current ratio and profitability for a few sample companies?

Current ratio indicates the ratio between current assets and current liabilities. The ratio should be appropriate commensurate with the size and nature of the company's operations. At times higher current ration may impair profitability as the management may be too conservative and thus may not deploy funds aggressively for earning higher return on capital. The current ration may also be higher due to the company not having opportunities for profitable investments. Public sector companies are generally conservative in approach. This is reflected by the various ratios of Cash Management chapter wherein the Orissa Mining Corporation shows abnormally high cash holdings.

Possible reasons for inventory or debtors' turnover found to be not associated with profitability for a few sample companies?

Inventory turnover ratio indicates the ratio between sales and average inventory. The profitability however, is a function of the sales revenue and the operating expenses. Due to interplay of inventory, sales revenue, operating expenses and the margin it is difficult to establish any direct correlation between inventory turnover ratio and profitability. This is reflected by our analysis. Moreover since the data considered is for 10 years, the variations are normally expected as the business cannot continue to operate at a given static level throughout.

Similarly, debtor's turnover ratio indicates the ratio between debtors and average sales. Higher ratio will indicate liquidity pressure as the money is stuck with the customers which in turn impairs the ability of the company to deploy those funds for generating high returns. The data varies from company to company due to the reasons explained above.

Possible causes of erratic trends of different components of working capital and working capital turnover.

The erratic trend of different components of working capital and working capital turnover is due to variations in the size of average working capital for the sample companies over the period of study. Moreover the components of working capital would have also undergone change over the years by way of flow between inventory, debtors and cash.

The average value of inventory as a percentage of current assets shows fluctuating trend during the period under study

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MA

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Retirement

CMA R N Pal has retired from the services of the Institute as Senior Director on 30th June, 2014. The Institute appreciaties his long and distinguished service and wishes him a happy and healthy life.

COST ACCOUNTING STANDARD ON MANUFACTURING COST (CAS – 22)

The following is the COST ACCOUNTING STANDARD – 22 (CAS - 22) issued by the Council of The Institute of Cost Accountants of India for determination of "MANUFACTURING COST". In this Standard, the standard portions have been set in bold italic type. This standard should be read in the context of the background material which has been set in normal type.

1. Introduction

1.1 This standard deals with the principles and methods of determining the **Manufacturing Cost of excisable goods.**

1.2 This standard deals with the principles and methods of classification, measurement and assignment for determination of the Manufacturing Cost of excisable goods and the presentation and disclosure in cost statements.

2. Objective

The objective of this standard is to bring uniformity and consistency in the principles and methods of determining the Manufacturing Cost of excisable goods.

3. Scope

This standard should be applied to cost statements which require classification, measurement, assignment, presentation and disclosure of Manufacturing Cost of excisable goods.

4. Definitions

The following terms are being used in this standard with the meaning specified.

4.1 Abnormal and non-recurring cost: An unusual or atypical cost whose occurrence is usually irregular and unexpected and/or due to some abnormal situation of the production or operation.

4.2 Administrative Overheads: Cost of all activities relating to general management and administration of an organisation.

Administrative overheads need to be analysed in relation to production/manufacturing activities and other activities. Administrative overheads in relation to production/ manufacturing activities shall be included in the manufacturing cost.

Administrative overheads in relation to marketing, projects management, corporate office or any other expense not related to the manufacturing activity shall be excluded from manufacturing cost.

4.3 Captive Consumption: Captive Consumption means the consumption of goods manufactured by one division or unit and consumed by another division or unit of the same organization or related undertaking for manufacturing another product(s), as defined in section4(3) of the Central Excise Act, 1944.

4.4 Defectives: End Product and/or intermediate product units that do not meet quality standards. This may include reworks or rejects.

An intermediate product is a product that might require further processing before it is saleable to the ultimate consumer.

4.4.1 Reworks: Defectives which can be brought up to the standards by putting in additional resources.

Rework includes repairs, reconditioning, retro-fitment and refurbishing.

4.4.2 Rejects: Defectives which cannot meet the quality standards even after putting in additional resources.

Rejects may be disposed off as waste or sold for salvage value or recycled in the production process.

4.5 Depreciation: Depreciation is a measure of the wearing out, consumption or other loss of value of a depreciable asset arising from use, efflux of time or obsolescence through technology and market changes. Depreciation does not include impairment loss.

Depreciation is allocated so as to charge a fair proportion of the depreciable amount in each accounting period during the estimated useful life of the asset.

Depreciable amount of a depreciable asset is its historical cost, or other amount substituted for historical cost in the financial statements, less the estimated residual value.

Useful life of asset is either

(i) the period over which a depreciable asset is expected to be used by the enterprise; or

(ii) the number of production or similar units expected to be obtained from the use of the asset by the entity.

Depreciation that is charged in audited financial statement should be considered.

4.6 Direct Expenses: Expenses relating to manufacture of an excisable good, which can be identified to such excisable good other than direct material cost and direct employee cost.

4.7 Employee Cost: The aggregate of all kinds of consideration paid, payable and provisions made for future payments for the services rendered by employees of an enterprise (including temporary, part time and contract employees). Consideration includes wages, salary, contractual payments and benefits, as applicable or any amount paid or payable on behalf of employee. This is also known as Labour Cost.

4.7.1 Direct Employee Cost: The cost of employees which can be attributed to an excisable good in an economically feasible way.

4.7.2 Indirect Employee Cost: The cost of employees which cannot be directly attributed to a particular excisable good.

4.8 Interest and Finance Costs: Costs incurred by an enterprise in connection with the borrowing of funds.

4.9 Manufacturing Cost: Manufacturing cost of an excisable good is the aggregate of costs of all resources used in the process of its manufacturing.

Manufacturing cost includes cost of Materials (including process materials), Employee Cost, Cost of Utilities, Packing Cost, Direct Expenses, Repairs &Maintenance Cost, Pollution Control Cost, Quality Control Cost, Research & Development Cost, Cost of Inputs received free of cost or received at concessional value from the buyer of the excisable good, Depreciation and Amortisation (including amortisation cost of free tools, patterns ,dies, drawings, blue prints, technical maps, charts, engineering, development, art work, design work, plans, sketches, packaging material and the like necessary for production of excisable goods), Cost of Rework, reconditioning, retro-fitment, Manufacturing Overheads, other costs allocable to such activity, adjustment for stock of work-in-process and recoveries for sales of scrap and wastages and the like but does not include expenses of the above nature incurred for post manufacturing purposes.

Manufacturing Cost and Cost of Production are used interchangeably.

4.10 Manufacturing Overheads: Indirect costs involved in the manufacturing process

The terms Manufacturing Overheads, Factory Overheads, Works Overheads and Production Overheads have the same meaning and are used interchangeably. Manufacturing overheads shall include administration cost relating to production, factory, works or manufacturing and depot.

Manufacturing Overheads shall be classified on the basis of behaviour as Variable Manufacturing Overheads and Fixed Manufacturing Overheads.

Variable Manufacturing Overheads comprise of expenses which vary in proportion to the change in volume of production. For example, cost of utilities etc.

Fixed Manufacturing overheads comprise of expenses which does not change with the change in volume of production. For example, salaries, rent, repairs & maintenance, etc.

4.11 Material Consumed: Material Consumed includes materials directly identified for production of excisable goods such as:

(a) Indigenous materials
(b) Imported materials
(c) Bought out items
(d) Self-manufactured items
(e) Process materials and other items
(f) Materials received free of cost or at

concessional value from the buyer
(g) Accessories, on which cenvat credit is admissible, and which are cleared along with the final product
(h) goods used for providing free warranty for excisable goods

Cost of material consumed consists of cost of material, duties and taxes, freight inwards, insurance and other expenditure directly attributable to procurement. Trade discount, rebates and other similar items are deducted for determining the cost of materials. Cenvat credit, credit for Countervailing Customs Duty, Sales Tax set off, VAT, duty draw back and other similar duties subsequently recovered/ recoverable by the entity are also deducted.

4.12 Normal Capacity is the production achieved or achievable on an average over a period or season under normal circumstances taking into account the loss of capacity resulting from planned maintenance.

Capacity may be determined in terms of units of production or equivalent machine or man hours.

4.13 Packing Material Cost: The cost of material of any nature used for the purpose of packing of excisable good.

4.14 Quality Control Cost: The quality control cost is the expenses incurred relating to quality control activities for adhering to quality standard. These expenses include salaries & wages relating to employees engaged in quality control activity and other related expenses.

4.15 Repairs & Maintenance Cost: Cost of all activities which have the objective of maintaining or restoring an asset in or to a state in which it can perform its required function at intended capacity and efficiency.

4.16 Research and Development Cost: The research and development cost incurred for development and improvement of the process or the excisable good.

4.17 Royalty: Royalty is compensation/periodic payments for the use of asset (tangible and/ or intangible) to the owner for use of his asset in the production/manufacture, selling and distribution by an entity.

4.18 Scrap: Discarded material having some value in few cases and which is usually either disposed of without further treatment (other than reclamation and handling) or reintroduced into the production process.

4.19 Technical Know-how Fee: Technical Know-how Fee is a lump sum or periodical amount payable to provider of Technical Know-how in the form of design, drawings, training of personnel, or practical knowledge, skills or experience.

4.20 Waste and Spoilage:

4.20.1 Waste: Material lost during production or storage due to various factors such as evaporation, chemical reaction, contamination, unrecoverable residue, shrinkage, etc., and discarded material which may or may not have any value.

4.20.2 Spoilage: Production that does not meet with dimensional or quality standards in such a way that it cannot be rectified economically and is sold for a disposal value. Net Spoilage is the difference between costs accumulated up to the point of rejection and the salvage value.

5. Principles of Measurement

5.1 Manufacturing cost for each excisable good shall be measured separately.

5.2 Manufacturing cost of each excisable good shall be the aggregate of direct and indirect cost relating to manufacturing activity.

5.3 Material cost shall be measured separately for each type of material, that is, for indigenous material, imported material, bought out components and process materials, self-manufactured items, accessories for each type of excisable good.

Cost of Inputs received free of cost or at concessional value from the buyer of the excisable good shall be considered for determination of manufacturing cost.

5.4 The material cost of normal scrap/ defectives which are rejects shall be included in the material cost of excisable goods manufactured. The material cost of actual scrap/ defectives, not exceeding the normal quantity shall be adjusted in the material cost of good production. Realized or realizable value of scrap or waste shall be deducted for determination of manufacturing cost. Material Cost of abnormal scrap /defectives should not be included in material cost but treated as loss after deducting the realisable value of such scrap / defectives.

5.5 Employee Cost for each excisable good shall be measured separately.

5.6. The cost of utilities consumed for manufacturing of excisable good shall be measured for each type of utility.

5.7 Packing material cost used for each type of excisable good shall be measured separately.

If excisable goods are transferred/dispatched duly packed, the cost of such packing shall include cost of all types of packing in which the excisable goods are removed from the place of removal.

5.8 The Direct Expenses for manufacturing of excisable goods shall be measured for each excisable good separately.

5.9 Repairs and maintenance cost for manufacturing of excisable goods shall be measured for each excisable good separately.

5.10 Depreciation and Amortisation cost for manufacturing of excisable goods shall be measured for each excisable good separately.

5.11 Research & Development cost for manufacturing of excisable goods shall be measured for each excisable good separately.

5.12 Cost incurred for manufacturing of excisable goods after split-off point shall be measured for each Joint/By-Product.

In case the manufacturing process generates scrap or waste, realized or realizable value net of cost of disposal, of such scrap and waste shall be deducted from the cost of Joint Product.

5.13 Royalty and Technical Know-how Fee for manufacturing of excisable goods paid or incurred in lump-sum or which are in the nature of 'one-time' payment, shall be amortised on the basis of the estimated output or benefit to be derived from the related Technical Know how.

Royalty paid on sales shall not form part of manufacturing cost of excisable good.

5.14 Quality Control cost incurred in-house for manufacturing of excisable goods shall be the aggregate of the cost of resources used in the Quality Control activities in relation to each excisable good. The cost of resources procured from outside shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of discounts, taxes and duties refundable or to be credited as input credit.

5.15 Manufacturing Overheads for excisable goods representing procurement of resources shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of discounts; taxes and duties refundable or to be credited as input credit.

Manufacturing Overheads other than those referred to above shall be determined on the basis of cost incurred in connection therewith.

5.16 Any abnormal cost, where it is material and quantifiable, shall not form part of the manufacturing cost of excisable good.

5.17 Interest and other Finance costs are not part of manufacturing cost of excisable good.

5.18 Manufacturing cost of excisable good shall include cost of inputs received free of cost or at concessional value from the buyer of excisable good and amortisation cost of free tools, pattern, dies, drawings, blue prints, technical maps, charts, engineering, development, art work, design work, plans, sketches, and the like necessary for production of excisable good. It shall also include cost of rework, reconditioning, retro-fitment, Manufacturing Overheads and other costs allocable to such activity, adjustment for stock of work-in-process and recoveries from sales of scrap and wastages and the like necessary for production of excisable good.

In case any input material, whether of direct or indirect nature, including packing material, is supplied free of cost or at concessional value by the buyer of the excisable good, the cost of such material shall be included in the manufacturing cost.

For example: Amortisation Cost of Moulds, Tools, Dies & Patterns and Cost of Packing Material etc. received free of cost or at concessional value from the buyer of excisable good shall be included in manufacturing cost.

5.19 Any Subsidy/Grant/Incentive or any such payment received/receivable, from other entity, other than the buyer with respect to any manufacturing cost of excisable good shall be deducted for ascertainment of the manufacturing cost of excisable good to which such amounts are related.

5.20 The manufacturing cost of excisable good shall be determined based on the normal capacity or actual capacity utilization whichever is higher and unabsorbed cost, if any, shall be treated as abnormal cost.

5.21 Fines, penalties, damages, demurrage and similar levies paid to statutory authorities or other third parties shall not form part of the manufacturing cost of excisable good.

5.22 The forex component of imported material or other element of cost shall be converted at the rate on the date of the transaction. Any subsequent change in the exchange rate till payment or otherwise shall not form part of manufacturing cost of excisable good.

5.23 Credits/recoveries relating to the manufacturing cost, which are material and quantifiable, shall be deducted from the total manufacturing cost to arrive at the net manufacturing cost of excisable good.

5.24 Work in process/progress stock shall be measured at cost computed for different stages of completion.

Stock of work-in-process/progress shall be valued at cost on the basis of stages of completion as per cost accounting principles. Opening and closing stock of work-in-process/ progress shall be adjusted for computation of manufacturing cost of an excisable good.

6. Assignment of Cost

6.1 While assigning various elements of manufacturing cost of excisable goods, traceability to an excisable good in an economically feasible manner shall be the guiding principle. The cost which can be traced directly to each excisable good shall be directly assigned.

6.2 Assignment of manufacturing cost of excisable goods, which are not directly traceable to the excisable good shall be based on either of the following two principles;

6.2.1 Cause and Effect – Cause is the process or operation or activity and effect is the incurrence of cost.

6.2.2 Benefits received – to be apportioned to various cost objects in proportion to the benefits received by them.

6.3 The variable manufacturing/production overheads shall be absorbed based on actual production.

6.4 The fixed manufacturing/production overheads and other similar item of fixed costs such as quality control cost, research and development costs and administrative overheads relating to manufacturing shall be absorbed in the manufacturing cost on the basis of the normal capacity or actual capacity utilization of the plant, whichever is higher.

6.5 In case a production process results in more than one product being produced simultaneously, treatment of joint products and by-products shall be as under:

6.5.1 In case joint products are produced, joint costs are allocated between the products on a rational and consistent basis.

6.5.2 In case by-products are produced, the net realisable value of by-products is credited to the manufacturing cost of the main product.

6.6 Miscellaneous Income relating to production/manufacture shall be adjusted in the determination of manufacturing cost.

For example, income from sale of empty containers used for procurement of raw material shall be deducted in determination of manufacturing cost.

7 Presentation

7.1 Cost statement as per Appendix 1 to this standard or as near thereto shall present following information:

7.1.1 Actual capacity utilization in absolute terms and as a percentage of normal capacity.

7.1.2 Cost information relating to various elements of Cost shall be presented separately.

8. Disclosures

8.1 Disclosure shall be made only where material, significant and quantifiable.

8.2 If there is any change in cost accounting principles and practices during the period under review which may materially affect the manufacturing cost of excisable good in terms of comparability with previous period(s), the same shall be disclosed.

9. Effective date

This Cost Accounting Standard shall be effective from the period commencing on or after 1st April 2015 for being applied for the preparation and certification of Cost Accounting Statements for excisable goods.

(The appendix will be published in the next issue)

Attention, please!

We are in the process of updating certain details relating to your membership profile. Requesting you to kindly spare your precious time to fill in the details in the prescribed proforma which is uploaded under 'Members' section on the Institute website www.icmai.in

The proforma, duly filled in, may be forwarded to membership.sanjoy@icmai.in

Notification

It is hereby notified vide Notification Nos. 18-CWR (4578-4604)/2014 dated 27th March 2014, 18-CWR (4605-4624)/2014 dated 16th April 2014, 18-CWR (4625 - 4650)/2014 dated 30th April 2014, 18-CWR (4651 - 4688)/2014 dated 2nd May 2014, 18-CWR (4689 - 4722)/2014 dated 6th May 2014, 18-CWR (4723 - 4748)/2014 dated 9th May 2014, 18-CWR (4749 - 4767)/2014 dated 16th May 2014 and 18-CWR (4768 - 4785)/2014 dated 22nd May 2014 in pursuance of Regulation 18 of the Cost and Works Accountants Regulations, 1959 that in exercise of the powers conferred by Regulation 17 of the said Regulations, the Council of the Institute of Cost Accountants of India has restored to the Register of Members, the names of members, details of which are uploaded on the Institute's website www.icmai.in

The Financial Reporting Supply Chain in Asia

Dr. Sarath Amunugama

The rapidly developing resort town of Negombo, located within 20 minutes of the recently expanded Bandaranayake International airport near Colombo in Sri Lanka, was a fitting location for the inaugural Financial Reporting for Economic Development Forum staged by the Confederation of Asian and Pacific Accountants (CAPA).

In his opening address, Sri Lanka's Deputy Minister of Finance & Planning, Dr. Sarath Amunugama, reflected on the rapid economic development in recent years and the current healthy 7.5 % growth rate. Whilst noting that financial management reforms need to keep pace, he was quick to point out that the country has a strong accounting profession, a comment supported by the leadership of CAPA.

CAPA is a regional body recognised by the global accountancy profession represented by the International Federation of Accountants (IFAC). As a regional organisation, it represents 31 professional accounting organisations across 23 jurisdictions of the Asia Pacific and aims to develop, coordinate, and advance the accountancy profession in the region.

The Forum was supported by the World Bank. "And without this support the Forum could not have proceeded," said Brian Blood, Chief Executive of CAPA. Both organisations recognise the importance of high quality financial management and reporting across private and public sectors as a key driver of investment, employment, and ultimately the reduction of poverty. Fily Sissoko, Manager of the South Asia Region Financial Management unit of the Bank explained, "The accountancy profession has a vital role to play in the goal of shared prosperity."

With globalisation, there is increasing focus on doing business in and with Asia. For Asia to be successful, it will be important to have effective capital markets and strong corporate governance systems.

Corporate scandals and collapses are often associated with companies outside of Asia; however the region has not been immune. Chandu Bhave would know – he was Chairman of the Securities and Exchange Board of India (SEBI) around the time of the Satyam scandal. At the Forum he joined in a panel discussing 'ethics and the professional accountant.'

Brian Blood

The Forum was based around the financial reporting supply chain, a term used to depict the myriad of players involved in the preparation, approval, audit analysis and use of financial reports. "When failure occurs, so often the first and possibly only question asked is where were the auditors?" said Fayez Choudhury, Chief Executive of IFAC. Choudhury sees this as an imbalance in the public policy debate with a risk it leads to less than the best outcome. "As with any chain, it is only as strong as its weakest link, so all links in the chain need to be strong."

Global accounting and auditing standards provide a sound starting point for high quality financial reporting since they arise from independent standard setting boards. They also provide consistency in a global marketplace. Implementing these standards can be a challenge, and a number of countries in Asia are late to the party. Their implementation and use requires a dearth of well-trained, professional accountants, and in some countries there is a need to build capacity. Whilst mandating professional qualifications for preparers of accounts is an idealistic goal, it just may not be possible where shortages of accountants exist.

This raised questions about the education systems supporting the profession and Professor Narayanaswamy from the Indian Institute of Management Bangalore, did not pull any punches suggesting that the gap between what academia is supplying and the needs of the profession has widened in some locations. "There is much to be done," he conceded. "Academics in the Asia Pacific region and in SAARC and ASEAN should collaborate more in teaching and research, and there is a need to bring contemporary issues into the classroom."

Financial reporting related reforms across Asia over the last 15 years have been substantial. Analysis from the Asian Corporate Governance

Association (ACGA) revealed that in 1998 most countries in Asia did not have codes of corporate governance or require independent directors or audit committees. "Today the position is very different; with codes for Board governance having been introduced and often updated over the period, and all but Japan of the larger Asian countries requiring independent auditors and audit committees. Taiwan is still phasing in the requirement for independent directors, while audit committees will be mandatory as of 2014," Sharmila Gopinath, a research director for ACGA based in India said.

However, whilst the reform has occurred and codes, standards, and principles are widely referenced, many of the speakers acknowledged the challenges, and indeed the will, to implement. Oftentimes it comes down to human behaviour and whether a strong corporate governance culture will be encouraged and enforced. An analogy often used in the Forum was 'why is it that a car driver from Europe obeys the road rules in their own country, but if driving in Asia appears to change habits; or a driver from Asia not used to abiding rules in their own country quickly falls in line with driving requirements if visiting Europe?' "Enforcement is the number one issue," stated Sharmila Gopinath. "Without this, there is little incentive to always do the right thing."

One unique challenge for Asia reflects the preponderance of closely controlled, often family related, companies. Majority control places increased focus for investors on related party transactions and transparency requirements. Link to this the challenges of putting in systems that encourage and support the raising of bad news - 'whistle-blowing' - then you have some real challenges. Investors demand confidence in financial reporting and Asia in general has some work to do to reduce the level of perceived unethical behavior or corruption.

Clement Chan, current President of the Hong Kong Institute of Certified Public Accountants and also Chair of the Asian-Oceanian Standard-Setters Group, put it nicely when he said: "The real question is what do we have to disclose to give a true and fair view."


Professor Mervyn King

Financial reporting is moving ahead in other ways at the moment under the increasingly recognised 'Integrated Reporting' banner. Professor Mervyn King, Chair of the International Integrated Reporting Council who is a passionate advocate of integrated reporting noted: "Financial reporting, while not broken, is not sufficient on its own. Similarly, sustainability reporting is not sufficient on its own. While both these reports are critical, it has to be shown how the financial impacts on the non-financial and vice versa. The reality is that the resources used by a company and the relationships with its key stakeholders are interdependent and interconnected. An analysis of the market cap of companies listed on stock exchanges shows that only 20% of the market cap of companies is included as additives in a balance sheet according to financial reporting standards. Consequently the financial report does not inform the user of the 'state of play' in a company. Boards need to apply their collective minds to the financial and non-financial reports and ensure that the material matters are explained in clear, concise, and understandable language in an integrated report so that the reader can make an informed assessment that the business of the company will sustain value creation in the short, medium, and long term."

The integrated reporting journey is reasonably new and has a way to go to reach mainstream acceptance, with some stakeholders raising concerns over certain matters. The challenges include providing the company's long term strategy knowing others will rely on that information - directors and auditors especially are closely considering their risks. However, it is clear many companies are embracing the spirit of integrated reporting, providing understandable information on the business's total value creation, short, medium, and long term. It has to be accepted that business is at the junction of the economy, society, and the environment.

A pilot program has been underway for some time with companies from around the world participating. Diesel & Motor Engineering Plc. based in Sri Lanka is one such company, and Suresh Gooneratne, the executive director noted the benefits were exceeding the efforts and costs involved. Professor King did note that the number of companies involved in the pilot program from Asia was comparatively low, which supported a sense that Asia was not keeping pace in this new area of development.

The Forum was largely devoted to the private sector, however one session did focus on the financial reporting supply chain as it relates to the public sector. The level of interest and activity in this area has accelerated significantly in recent years following a number of high profile sovereign debt crises. Andreas Bergmann, Chair of the independent International Public Sector Accounting Standards Board was clear in his view: "Accrual accounting is state of the art."

Suhas Joshi, Regional Advisor, Public Financial Management with the International Monetary Fund pointed out some of the challenges in achieving this goal and questioned if expected levels of success were always being achieved. Alan Edwards from the Chartered Institute of Public Finance and Accountancy based in the UK focused on some approaches to professionalise this sector, often working closely with donor agencies such as the World Bank. A large reform program underway in Bangladesh is seeing over 300 staff undertake professional training, and 65 officials from the Office of the Comptroller and Auditor General attained certificate level accreditation.

CAPA is also active in this area, and recently published "Improving Public Financial Management in the Public Sector – The Eight Key Elements of PFM Success" a toolkit allowing national professional accounting organisations to engage with key government stakeholders to discuss challenges and opportunities. "Professional accounting organisations have a vital role to play in ensuring the public sector has access to properly equipped, qualified accountants and auditors to manage and safeguard taxpayer funds," explained Gillian Fawcett, Head of Public Sector at ACCA (Association of Chartered Certified Accountants) based in London.


Sujeewa Mudalige

The level of interest in the public sector debate was such that the next Financial Reporting for Economic Development Forum will likely focus predominantly on the public sector. "With support from the World Bank, CAPA looks forward to staging the next Forum within eighteen months, and we will move the location each time around Asia," said Sujeewa Mudalige, CAPA President, during his closing remarks.

Further information about the forum program, speakers and selected presentation materials can be found at:

http://www.fredasia.org

Author, Brian Blood, fulfills the role of Chief Executive of the Confederation of Asian and Pacific Accountants. He is based in Sydney, Australia.

Attention Members !

Annual membership fee for FY 2014-15 became due for payment w.e.f. 1.04.14. Members are requested to kindly make payment of their prescribed membership fee without waiting for the last date of payment.

CORPORATE GOVERNANCE IN BANKS

Experts in the field believe that the PSBs need to resist the temptation of cutting corners when it comes to investing in in-house technology as opposed to mindless indiscriminate and injudicious outsourcing driven and motivated decisions prompted by considerations of mere cost reduction

Jai Deo Sharma
Director, Indian Overseas Bank (IOB) President, IOB Officers' Association Joint General Secretary, All India Bank Officers' Confederation.

Corporate Governance in banks is relatively a new concept in India which has emerged during last two decades. Before the advent of Narasimham Committee on Financial Sector Reforms, the banking sector in India was largely characterised by Public Sector Banking. The Public Sector Banks (PSBs) were closely regulated by the statute in the form of State Bank of India Act, Bank Nationalisation Act, Banking Regulation Act and Reserve Bank of India Act. The capital of PSBs was contributed by the government. In 1992-93 when Narasimham Committee recommended implementation of Capital Adequacy requirements linked to Risk Weighted Assets value in the Balance Sheet of the banks, most of the banks discovered that they were hugely capital deficient. It created urgent need of re-capitalisation of the banks and in the case of PSBs, the onus of inducting fresh capital lied on government. The government attempted to re-capitalise PSBs by contributing directly or by raising soft loans from International Agencies with enhanced liberalisation conditionalities stipulated. The strong banks in Public Sector were also advised to raise capital from market. It led to many PSBs resorting to initial public offering for raising additional capital. It is in this process that PSBs got listed on Stock Exchanges. Such listing enhanced the Regulatory Framework for PSBs as they attracted the regulations of Stock Exchanges and Securities and Exchange Board of India (SEBI).

Narasimham Committee was responsible for introduction of Asset Classification norms including Non Performing Assets (NPAs). The poor quality of assets led to higher provisioning in respect of NPAs. This made a dent in the Balance Sheet of the banks by way of reduction in profit thereby impeding the capacity of the banks to plough back the earnings to strengthen the capital base. The growth of the asset portfolio was linked to the adequacy of capital of the banks. Such developments were responsible for emergence of Corporate Governance which was earlier confined only to academicians and research scholars and formed part of occasional debates. It would therefore be appropriate to say that the concept of Corporate Governance in the banks in India is concomitant with the implementation of Narasimham Committee recommendations, globalisation and also emergence of new Private Sector banks in 1993-94.

The economic crisis of 1997-98 in Russia, South Korea, Mexico, Indonesia and few more countries left many lessons to the banking sector world-wide. An analysis of the causes of economic crises revealed that the initial signals of crises related to the banks' loan portfolio coming under stress were not noticed and hence remained unaddressed. These signals were rather ignored and timely correctives were not initiated. It therefore culminated into crises including in the Banking Sector. The countries which were affected by the crisis of 1997-98 started creating more stringent Regulatory Framework and infrastructure to better equip their banking system to avert such crisis in future. But US Financial Crisis of 2008 exposed the weaknesses in the Regulatory Framework and infrastructure of most of the countries world-wide. US Financial Crisis severely impacted the financial sector globally. This also enhanced the need for better Corporate Governance in the Banking Sector.

Components of Corporate Governance

Meaning and concept

Corporate Governance has generated intense debate throughout the world in the aftermath of US Financial Crisis of 2008. It is common understanding that the banking institutions are owned by the Contributors of the capital. A natural corollary of this is that the banks should be managed for the benefit of those who have contributed capital. But it is a very narrow description of the objectives of a banking institution. In the context of Corporate Governance in banks, it can be said that maximization of shareholders' interest, taking care of interest of other stakeholders by conducting the business in a transparent and ethical manner with a sense of accountability are the hall marks of Corporate Governance. The other stakeholders include customers, suppliers, creditors, employees, government, regulators and society at large. The interest and rights of shareholders cannot be achieved effectively without promoting and protecting the interest of other stakeholders. The shareholders need to participate in the process of Corporate Governance by involving in important decisions. But it is easier said than done. The shareholders will have an opportunity to participate only in those decisions which are taken in Annual General Meeting of shareholders like deciding about the quantum and structure of capital, appointment and remuneration of auditors, election of shareholder directors, declaration of dividend etc.

In case of PSBs, the government continues to be the majority shareholder and this gives ample powers to government to influence important decisions to be taken even with the participation of the shareholders. The institutional shareholders come next in terms of wielding influence in decision making process in PSBs. It practically leaves the retail shareholders of PSBs with very little scope to influence the decisions in the banks. But irrespective of as to which block of shareholders wields more influence, the fact remains that the shareholders have an important role in major decisions of the banks, which theoretically is played through shareholders' representative directors on the Boards of the Banks. Since the election of shareholder directors is largely influenced by the Management of the Banks, so is the level of their participation and degree of independence.

Some of the definitions of Corporate Governance are listed below –

(1) Corporate Governance is a field of economics that investigates how to secure and promote efficient management of the Corporations by the use of incentive mechanism such as contracts, organisational designs and legislation. This is often limited to the question of improving financial performance, for eg., how the corporate owners can secure and ensure that the corporate managers will deliver a competitive rate of return.

(2) Corporate Governance is the system by which business corporations are directed and controlled. The Corporate Governance structure specifies the distribution of rights and responsibilities among different participants in Corporations such as the Board, Manager, shareholders and other

stakeholders and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides that the infrastructure through which the company objectives are set and the means of attaining those objectives and monitoring the performance.

(3) Corporate Governance is about promoting corporate fairness, transparency and accountability. It is the relationship of the company with its shareholders and society at large.

(4) Corporate Governance is about commitment to values and about ethical business conduct. It is about how an organisation is managed. This includes its corporate and other structures, its culture, its policies and the manner in which it deals with various stakeholders. Timely and accurate disclosure of information regarding financial situation, performance, ownership and governance of the company is an important part of Corporate Governance.

Corporate Governance Framework

To understand the framework of Corporate Governance in banks, it would be appropriate to have a look at the diagram on previous page.

The Board of Directors represents the interests of the shareholders and owners in optimizing long term value by providing proper guidance and strategic vision for betterment of stakeholders and society at large. It is therefore important for Board of the banks to lay down clear and unambiguous policies in the area of Risk Management and Controls to ensure that the functionaries at different levels of hierarchy do not indulge in excessive risk taking and exposing the bank to avoidable financial crisis. The Regulatory Compliance is an important aspect of Corporate Governance in banks and needs more emphasis. Disclosures and transparency play an important role in providing the required information to various stakeholders including the shareholders, Regulators, SEBI, government etc. Incentives & remuneration to Directors and Senior Management functionaries was one of the factors discovered in the wake of US Financial Crisis and hence it has assumed significance in the Corporate Governance in banks. The auditing practices are very vital components of Corporate Governance. Satyam fiasco in recent years has further enhanced its significance and importance. With the growing emphasis on classification of NPAs and required provisioning, auditors play an important role which sometimes may not be honest and fair. It is the responsibility of the Board of Directors to ensure that full-time Directors do not indulge in influencing the auditors to follow dishonest and unfair practices. The issues relating to the composition and size of the Board may be important in private banking institutions where the studies have found that banks with smaller Boards function more efficiently. The size of the Board in PSBs is determined by the statute but the composition and quality of its members does make a difference to the functioning and performance of the banks. The Directors with professionalism and required expertise can play an important role to ensure an overall good Corporate Governance in PSBs. The Corporate Governance is not treated as 'complete' unless it serves the general interest of the society. It is therefore necessary for PSBs to allocate a portion of their resources towards socially responsible activities.

The crises and scams at frequent intervals have been affecting the banking industry adversely. In banks, a crisis can occur primarily on two counts – firstly, if there is a run by the depositors on the bank which in case of PSBs is a remote likelihood and secondly, on account of the deteriorating loan portfolio on asset side of the Balance Sheet characterised by disproportionately high level of NPAs. In both the cases, the Regulators are charged with the responsibility to ensure the sound health of the banking system. The recent trends in PSBs are indicative of growing NPAs and hence a higher responsibility must be cast on the Regulators to critically analyse the NPA portfolio of PSBs to ensure that they do not get engulfed into a major crisis.

The integration of economies globally has been another important factor to have caused crises in the banking system. If Regulator is closely monitoring the functioning and performance of the banks, it is possible to predict the crises and take timely preventive measures. The shareholders have therefore gained an impression that the Regulatory Authorities are not able to provide an adequately effective regulatory environment to ensure good Corporate Governance and thereby prevent the frauds & crises.

It is therefore concluded that the Corporate Governance is a way of life that moulds and directs the roles, responsibilities and functioning of the Board of Directors and Management of the banking institutions with a view to achieving corporate objectives and capturing the interests of various stakeholders including the society at large in an ethical and transparent manner.

Measurement of Corporate Governance

The business of banking is predominantly of money lending. The globalisation has enhanced the role of derivatives and off-balance sheet exposure in the business of banking. It has also expanded the areas of risks encompassing –

(a) Market Risk
(b) Credit Risk
(c) Reputational Risk
(d) Currency Risk
(e) Exchange Risk
(f) Operational Risk
(g) Interest Rate Risk
(h) Country Risk

(i) Political Risk
(j) Concentration Risk

Effective management of these risks will greatly determine the success of banking operations. The Corporate Governance in banks plays an important role in proper management of different risks. Ultimately the success of effective Corporate Governance can be evaluated by using key performance indicators that are given on the right.

While higher values of Return on Assets, Return on Equity and Earnings per Share, Capital Adequacy Ratio and Net Interest Margin signify better performance, lower Gross and Net NPA ratios indicate better performance by the banks. Studies have found a positive and significant relationship between Corporate Governance and performance. The banks that have higher commitment to Corporate Governance through effective internal control, compliance, transparency, disclosures, meaningful accountability etc., have shown better performance on the above ratios. It is also suggested that the disclosures must be comprehensive, relevant, timely and comparable to pass the test of materiality. Since Corporate Governance is still in early stages in Indian banking sector, there is ample scope to enhance the level of Corporate Governance in banks and thus improve the performance outcomes.

(1) Return on Assets (ROA) = $\dfrac{\text{Net Income}}{\text{Average Total Assets}}$

(2) Return on Equity (ROE) = $\dfrac{\text{Net Income}}{\text{Equity}}$

(3) Earnings per Share (EPS) = $\dfrac{\text{Net Income}}{\text{Number of shares}}$

(4) Gross NPA Ratio (GNPAR) = $\dfrac{\text{Gross NPAs}}{\text{Total Advances}}$

(5) Net NPA Ratio (NNPAR) = $\dfrac{\text{Net NPAs}}{\text{Total Advances}}$
(Gross NPA - provisions)

(6) Capital Adequacy Ratio = $\dfrac{\text{Capital}}{\text{Risk Weighted Assets Value}}$

(7) Net Interest margin(NIM) = Yield on advances – cost of funds

(8) Business per employee = $\dfrac{\text{Total Business Mix}}{\text{Total number of employees}}$

(9) Profit per employee = $\dfrac{\text{Net Profit}}{\text{Total number of employees}}$

Enhancing the performance of PSBs

It is important to learn about the Corporate Governance structure that helps enhance the performance of banks. It is generally believed that 'owner-controlled firms' perform better than 'manager-controlled firms'. But in case of PSBs, there is no choice and we have to look for performance enhancement through improved Corporate Governance within the existing framework of 'government control-ownership' model. The analysis of past performance of banks vis-à-vis the level of Corporate Governance practices followed by PSBs indicate that it has been quite difficult to arrive at any definite conclusion. However, in general terms, the performance of the PSBs after dilution of government equity has given mixed indications as some banks gave enhanced performance outcomes whereas that of others were low and this trend was also not consistent. This has contributed to an enduring debate on Corporate Governance as to whether the "ownership structure" has any impact on performance outcomes. It is therefore pertinent to focus on improving the Corporate Governance framework irrespective of the ownership structure. The following strategies may help in improving the level of performance outcomes in PSBs:

Systemic correction

The system of appointment of full-time and part-time Directors on the Board of PSBs is provided under the provisions of the statute. The full-time Directors are selected from amongst the Top Management Executives of the PSBs on the basis of their past performance and potential to shoulder higher responsibilities. The process of selection also considers the age of the aspirants. Despite all efforts, it remains a reality that the incumbents get very short term as Executive Directors and the tenure as Chairman & Managing Director is also not upto the required

THERE IS GREATER NEED TO ENHANCE THE LEVEL OF RISK BASED DECISION MAKING IN A TRANSPARENT AND ETHICAL MANNER FOLLOWED BY IMPROVED REPORTING SYSTEMS ACROSS DIFFERENT LEVELS

levels. The problem can be addressed by selecting insider CEOs instead of transferring from one bank to another. It will have a significant impact of the performance of the banks. It will enhance performance by saving investment in terms of time taken by CEOs in knowing the banks, its customers, its staff, its culture and even its significant practices.

The part-time Directors are selected by the Government of India in different categories based on the expertise possessed by the candidates. But these selections are influenced by political affiliations and the incumbents are not always the best talents available for the job. The shareholder Directors are picked up by the CEO and the Government combined, keeping in view the compatibility and proximity rather than merits. The large voting rights and proxies that are mobilised by the CEOs of the PSBs play an important role in election of shareholder representatives on the Boards of PSBs. Similarly the Workmen Director and Officer-Employee Director are primarily nominated by their respective Unions/ Associations that often do so for different reasons which may not always be on merits and capability to contribute significantly at the Board level.

Training

Granting the statutory system of appointing full-time and part-time Directors on the Boards of PSBs, it is important for the banks to impart suitable and specific training for Board members especially in the field of strategic management, Corporate Governance and also strengthen their area of specialisation by further trainings. The Board members need to be sensitized about the responsibilities to be innovative and being oriented towards good Corporate Governance. The Boards of the banks should create an enabling environment that allows the Directors to understand the business of the bank and have better overall perspective. The Senior Management functionaries should also be given training in these areas so that the level of Corporate Governance flourishes.

Risk Management

Risk Management refers to designing and implementing such of those actions and remedies that address risks through a most appropriate course of action. Internal audit and compliance play an important role in managing the risks in PSBs. The Risk Management Department in PSBs being relatively new is still learning to anticipate and prevent different kinds of risks. It is mostly performing the function of adopting the guidelines received from Reserve Bank of India. There is tremendous scope for Risk Management Department to be proactive in risk prevention strategies. Since the business of banking faces a challenge of managing various risks discussed elsewhere in this paper, it assumes more significance to equip the people across hierarchy to understand the risks involved in the business of banking. The level of compliance needs to be enhanced to address and mitigate the risks. The risk-based internal inspection and on-sight and off-sight surveillance by the Regulators will prove helpful in improving the level of Corporate Governance while also containing the risks.

NPA Management

Non Performing Assets are indicators of brewing crises. It is therefore imperative for the banks to create awareness across hierarchy levels about the urgency of containing the level of NPAs which eat away the major portion of Operating Profit of the banks by way of provisioning for bad and doubtful loans.

Integrated Discipline

Corporate Governance is an integrated activity. Corporate Governance, risks, internal controls, compliance, transparent disclosures etc., are interconnected activities that rely on common sets of information, strategies, processes, methodology, technology, skills and expertise. The studies have found that having integrated discipline in respect of various components of Corporate Governance can help in better leveraging of business information leading to enhanced efficiency, greater transparency and controlling risks. It is important for compliance and audit functions to share their individual responsibilities to enhance not only the level of Corporate Governance but also the value of the business, shareholders and other stakeholders. There is increasing focus on compliance which involves the process of adhering to obligations within the framework of laws, regulations, organisational standards, contractual commitments, statutory filings, social responsibility, values, ethics etc. Internal audit is the medium to provide information to the Board through Audit Committee. It is emphasized that while the minutes of the meetings of the Audit Committee are ritually submitted to the Board of the Banks, there are hardly any occasions when the Chairman of Audit Committee gives a brief to the Board about the Audit Committee proceedings. It would be more appropriate for the Chairman of Audit Committee to brief the Board about the findings and observations of the Audit Committee.

It is seen that in many PSBs the compliance culture is quite different from the actual corporate compliance. The compliance of the unwritten instructions of superiors is considered a process to have mental peace in an otherwise stressful job. It should be the role of the Board to promote a top to bottom compliance culture i.e., well documented and incorporated into organisations routine operations and well communicated by the superior layer of authority. An effective independent internal audit and recognition that the internal auditors will monitor and assess the compliance with outlined standards plays a critical role in establishing good compliance culture. There is need to strengthen corporate code of conduct and the support-

Table-1: Growth of NPAs (Rs. in Crore)

Year	Gross NPA	NPA – fresh slippage	Net NPA	Net NPA (%)
2009	44957	5297	21047	0.94
2010	59927	14970	29366	1.09
2011	74615	14688	36084	1.13
2012	117262	42598	59162	1.58
2013	164461	47199	89951	1.87

Chart-1: Growth of NPAs

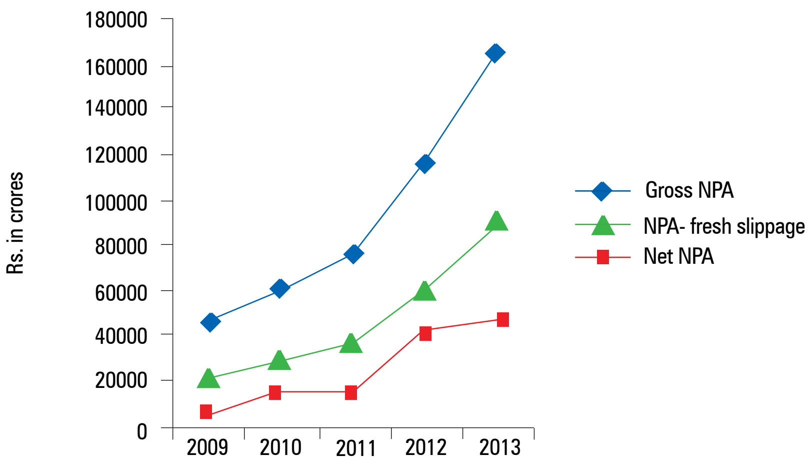


Table-2: Performance Indicators

Year	Net profit (Rs.crore)	Profit Growth (%)	Net Interest Margin (%)	Return on Assets (%)	Business per employee (Rs.lacs)	Profit per employee (Rs.lacs)
2009	34376	29.30	2.13	0.87	1245.93	6.05
2010	39257	14.20	2.13	0.82	1331.15	6.38
2011	44901	14.40	2.60	0.86	1408.23	7.96
2012	49514	10.27	2.60	0.85	1499.35	8.42
2013	50583	2.16	2.40	0.76	1651.38	8.13

Chart-2: Year-wise Net profit

ing policies that provide an effective framework for establishing greater compliance environment.

Evaluation

It is difficult to evaluate the exact impact of Corporate Governance on the performance of the banks. But the ratios mentioned in earlier part of this paper could provide some estimate of the same. The following tables and diagrams exhibit the performance of PSBs on important parameters for the past five years: (See Table 1 & Chart 1)

If rising NPAs are indication of measuring quality of Corporate Governance, it has been on a decline in last five years as revealed by Chart-1. It is therefore inferred that there is considerable scope for improving Corporate Governance in PSBs. (See Table 2 & Chart 2, 3 & 4)

Charts **2, 3** and **4** reveal that the Net Profit of PSBs in last five years has been consistently growing but profit per employee is not rising commensurate with the growth in the business per employee in last couple of years. Huge growth of NPAs is the main cause of relatively lower rate of profit. The crux of the Corporate Governance is enhancing the value of the stakeholders and from such a perspective, Net Profit has a vital role in evaluation of the degree and level of Corporate Governance. As revealed by these charts, there is much scope to further enhance the quality and the level of Corporate Governance in PSBs. (See Chart 5)

Net Interest Margin (NIM) and Return on Assets (RoA) are the indicators of operational efficiency and better Asset-Liability Management having significant impact on the profitability as a spread between Interest Earned and Interest Expanded. Similarly Return on Assets is an indicator of the earning capacity of the Assets. Higher ratio is considered better. Chart-5 shows

Chart-3: Year-wise Profit per employee

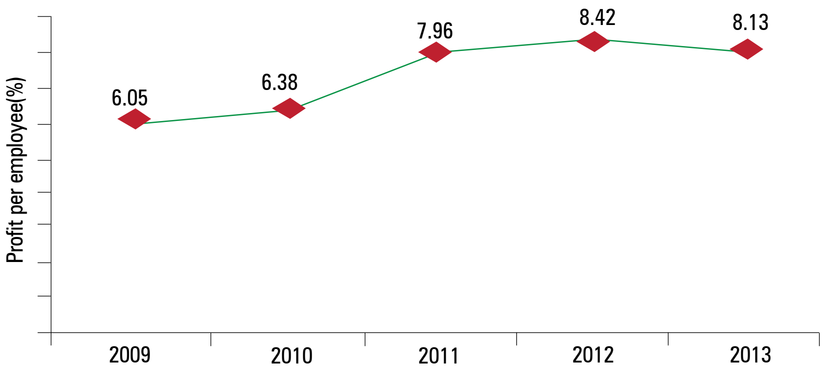


Chart-4: Year-wise Business per employee

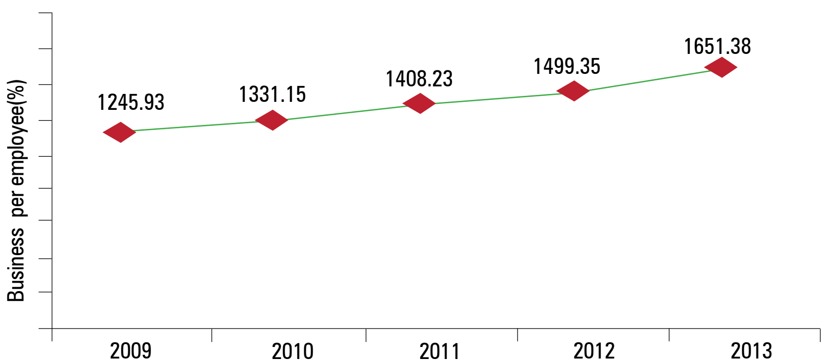
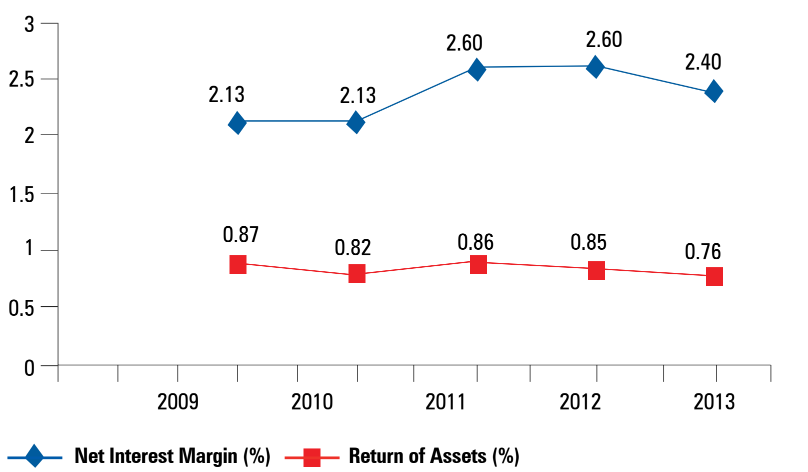


Chart-5: Year-wise NIM and RoA



almost declining trend implying further scope for improvement.

A way forward

Section 149 of Company Law that comes into effect from 1st April 2014 contains provisions regarding Corporate Governance in India and offers a challenging environment for the Corporates in this field. There would be enhanced need to create a comprehensive framework of Corporate Governance so as to comply with the provisions of law. The effective framework of Corporate Governance and setting up of standards of compliance will go a long way to reduce the expenditure on controls and audit functions in PSBs. There is greater need to enhance the level of risk based decision making in a transparent and ethical manner followed by improved reporting systems across different levels in the bank. The banks being financial intermediaries have a special role in the real economy and this probably is the reason that they are allowed higher leverage which is critical to efficient and effective monetary transmission. An optimal combination of financial leverage and technology leverage coupled with adequately trained human resources will determine the success of PSBs in the years to come. The experts in the field believe that the PSBs need to resist the temptation of cutting corners when it comes to investing in in-house technology as opposed to mindless indiscriminate and injudicious outsourcing driven and motivated decisions prompted by considerations of mere cost reduction. The growing competition and entry of new banks in Private Sector and Foreign Sector need to be factored by PSBs to evolve their strategies of growth and governance. A well defined budget for Corporate Social Responsibility (CSR) at 2% of average net profit of the last three years will help the PSBs to involve in CSR in a more meaningful and significant manner. Constitution of committees of the Board on the basis of expertise of the members instead of convenience is needed to enhance not only the effectiveness of the Board but also the level of Corporate Governance.

Section 188 of the new Companies Act provides that any related party transaction that is not done in ordinary course of business and is not at arm's length, will need approval of minority shareholders by way of a special resolution. It further provides that those shareholders who are related or are interested parties in the transaction will not be allowed to vote on the resolution relating to payment of Board fees or Management fees to majority shareholders. As per this section, approval of related party transactions will be scrutinized by the Audit Committee of the Board comprising a majority of independent directors. An effective implementation of these provisions will significantly protect the interests of minority shareholders while enhancing the quality of Corporate Governance. The MNCs like Maruti Suzuki Ltd., the biggest car makers in India which pay huge amount of royalty to its Japanese parents will not be able to dole out such sums without approval of the minority shareholders. It may also open the flood gates of unethical favours to such minority shareholders' representatives of Board. Hence the implementation of new provisions of Companies Act will call for a close watch and scrutiny to ensure good Corporate Governance.

Since many PSBs have their subsidiaries dealing in different financial services, there may be occasions where protecting the interests of the minority shareholders in related party transactions would assume importance. Hence the emerging scenario poses greater challenges to PSBs to post enhanced performance through better Corporate Governance. MA

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ANATOMY OF BANK FRAUDS – PREVENTIVE MEASURES

Technology has helped us to bank without going to the branch, during working hours, holidays, etc. However, it has resulted in a new type of fraud called Cyber Fraud. Here are some ways to preven them

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Banks are institutions which deal with customers' (public) funds in the form of Deposits. Deposits constitute the main source of funds for Banks. Banks use these funds for lending to needy people and also invest in securities (Statutory Liquidity Ratio – SLR purposes and other purposes.). Banks earn profits by offering lower interest to depositors and charging higher rates to borrowers. In the process of performing the duties, a Banker is prone to various risks – one of them is Operational Risk. Operational Risk has assumed significance after the adoption of Basel II guidelines. One of the main components of Operational Risk relates to Frauds in the banks. *Operational risk has been defined by the Basel Committee on Banking Supervision as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk. Basel Committee has identified many operational events leading to operational risks which include internal fraud (For example, intentional misreporting of positions, employee theft, and insider trading on an employee's own account) and external fraud (For example, robbery, forgery, cheque kiting, and damage from computer hacking). To take care of Operational Risk, as per Basel II guidelines, Banks have to provide Risk Capital to the extent of 15% of the average gross annual income of the past 3 years. (No change envisaged for this under Basel III guidelines).*

With the advancement in information technology, Banking has undergone a sea change. No more there is need for a customer to visit bank for getting the services, need not worry about business hours. Now, Banking has changed from brick and mortar to click banking. It is referred to as "AAA Banking" (Anytime, Anywhere and Anyhow Banking). Banking has become so easy with the support of information technology (IT). Any invention brings with it some risks. The frauds associated with IT are termed Cyber Frauds.

What is the definition of fraud?

Oxford Dictionary defines 'Fraud' as

a. For a layman 'wrongful or criminal deception intended to result in financial or personal gain'

b. For legal purposes 'a person or thing intended to deceive others, typically by unjustifiably claiming or being credited with accomplishments or qualities'

In India, Section 17 of the Indian Contract Act, 1872 defines 'Fraud'. The gist of the section is acts committed by a party to a contract with intent to deceive another party thereto, or to induce him to enter into the contract by making any false facts knowingly, concealment of a fact knowingly, promise without intention of performing it, etc.

A definition of fraud was, suggested in the context of electronic banking in the Report of RBI Working Group on Information Security, Electronic Banking, Technology Risk Management and Cyber Frauds, which reads as under:-

'A deliberate act of omission or commission by any person, carried out in the course of a banking transaction or in the books of accounts maintained manually or under computer system in banks, resulting into wrongful gain to any person for a temporary period or otherwise, with or without any monetary loss to the bank'.

What are 'Cyber Frauds'?

As per MacMillan Dictionary 'Cyber Fraud' is crime involving the use of the Internet to obtain money from someone by tricking them.

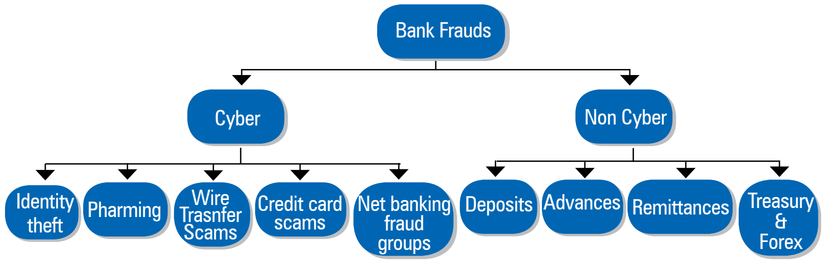
As per Business Dictionary 'Cyber Fraud' is ' Online theft of credit card number, expiration date, and other information for criminal use' (Ref. Diagram 1).

Banking with technology

Internet banking (also called ebanking or online banking) and Mobile banking (mbanking) are technology centric banking services that integrates customers of a financial institution to conduct a number of financial transactions (account and brokerage) as well as information services (like balance enquiries, download bank statements, post a requisition for a cheque book etc), on a secured website maintained by the institution.

To avail the facility of the online banking or mobile banking services, the customer must register for the Net Banking facility with the concerned bank. In the case of internet banking, a customer can login using his customer identification number (assigned by the bank) or a username/ user identification number (selected by the user). The customer is prompted to enter the user name and password as the first level of authentication for internet banking. *A virtual keyboard is available to enter the details, helps to outwit the key loggers, Trojan programs as well as Spywares, trying to capture the details of the key pressed on a standard keyboard.* The keys in a virtual keyboard can be shuffled as and when the user selects the option thus providing a second level of security for the users. Most of the banks today have implemented a one-time-password (OTP) step wherein on the request of the customer, an OTP is generated and sent to the mobile number and/ or email of the customer (as registered when he/she opted for internet banking). This is a time limited key that has to be entered in the system for a successful login session.

Diagram 1: Classification of Bank Frauds



The requirements to utilize mobile banking facility are - a mobile number registered with the bank against the individual's bank account which has an ATM/Debit card and a GPRS (General Packet Radio Service, a technology that enables access to data networks through mobile phones) enabled mobile handset. A mobile banking customer needs to download the mobile banking app specific to the mobile device brand/operating system used by the customer – this is provided by the bank. State Bank of India has named its mobile app as State Bank FreedoM, ICICI bank calls it iMobile, CanMobile is from Canara Bank, HDFC's Mobile Banking App while CorpBank is from Corporation Bank. Once the app is downloaded, it provides an interactive platform where the customer's phone is registered along with the GPRS Many of these apps provide interesting add-ons like ATM/branch locators, product listing, market indicators for the day's gold rate, bond rate, dollar rate, news and events which can be personalized!

The security systems used in mobile banking is the same as in net banking with the additional benefit that no information is stored on the mobile device be it customer login details or transaction details.

Common cyber frauds

a) **Identity theft:** Stealing of credentials from the user without his permission and using captured information to illegally conduct online transactions – which can be anything from accessing just the bank balance to transfer of funds. Phishing which involves enticing the online user to a fictitious site through a targeted email or a popup ad thereby prompting the user to enter the username and password which will be captured and stored by a third party, maliciously. Voice Phishing also called Vishing is another strategy that is used by fraudsters to have a rogue Interactive Voice Response (IVR) system very much like the original used by the bank that prompts the user to disclose his customer ID, Tele-banking PIN and any other information that is required to gain access to the customer's account.

b) **Pharming:** This is a much tougher but more broad based way of committing an online fraud by the intenders. The idea here is to hijack the banks

URL and redirect all the users accessing the original web page to a fraudulent web site where their information is captured for illegal and gainful use.

c) **Wire transfer scams:** Be it intra banks, inter banks or even international SWIFT inter bank funds transfer, once the transfer is made it is next to impossible to reverse the transactions especially when dealing with unknown person or institution. Lots of spam mails citing lottery or sweepstake (the well known Nigerian lottery winning), charity scam, employment letter, vehicle purchases, bids, or the recent email from the RBI governor referring to the official payment notification, entice people into disclosing the confidential account information to make an online transaction which involves transfer of large amount of funds.

d) **Credit card scams:** Impersonating and using stolen credit cards in commercial transactions - online or in person is one of the most common credit card fraud. The skimming of credit card information from the unaware user as it is being used for online payments/purchases using malware or spyware for unlawful gains is also an instance of the credit card fraud. The credit card details can also be captured illegally at PoS (Point of Sale), used to clone a fake credit card. Today the cyber criminals have gone tech-savvy in their operations so much so that they clone the SIM cards of the mobile numbers the customer register with the bank so that the One Time Password (OTP) the bank messages to the customer can be intercepted used to successfully complete the online transactions made using the stolen/cloned credit card.

e) **Net banking fraud groups:** Groups of criminals come together and plan an attack either against institutions or high net worth individuals and clear their account. The recent case where in Rs 10 lakhs was transferred from the bank account of VVS Lakshman through an apparently authorized (though fictitious) email to the bank manager – was found to be the work of an interstate net banking group of criminals.

Common non-cyber frauds

a) Deposits:

- Opening of fictitious or benami accounts and withdraw money deposited through cheque
- Fraudulent withdrawals from properly opened accounts
- Manipulations in accounts – Addition of names (arbitrarily) in single accounts and siphoning of funds, Withdrawal of money from Dormant Savings accounts/Overdue Fixed Deposits.

b) Advances:

- Submission of Project Reports while availing advances which are non-realistic
- Offering collateral security (Property) documents which are forged
- Falsification of accounts – Submission of Balance Sheet and Profit & Loss a/c which do not reflect a 'True and Fair' view
- Submission of 'Stock Statements' which do not reflect the correct position of the stocks hypothecated to the Bank
- Disposing of stocks hypothecated to the Bank without Bank's knowledge
- In Pledge accounts – fraud in the quantity of goods shown, the item pledged (oil cans containing water), etc.
- Multiple borrowing against the same security
- Diversion of funds lent by bank (Using the funds for purposes other than business or intended purpose)

c) Remittances:

- Misuse of Blank Leaves of Demand Draft
- Tearing off Clearing Cheques
- Withdrawal from accounts before the amounts are cleared

d) Treasury & Forex:

- At the times of quoting exchange rates to customers
- Using bank balances for personal gain during the day
- Having illicit connections with the Brokers in Money Market

Reserve Bank of India has classified 'rauds in the Banks' into the following

a. Misappropriation and criminal breach of trust.

b. Fraudulent encashment through forged instruments, manipulation of books of account or through fictitious accounts and conversion of property.

c. Unauthorised credit facilities extended for reward or for illegal gratification.

d. Negligence and cash shortages.

e. Cheating and forgery.

f. Irregularities in foreign exchange transactions.

g. Any other type of fraud not coming under the specific heads as above.

Reporting of frauds by banks

- Banks need not report instances of Fraud involving amounts below Rs. 1 lakh. However, the bank has to key in all the details of these frauds in FMR 1 in the FRMS Package
- The detailed procedure for reporting of Frauds involving Rs.1 lakh and above upto Rs.50 lakhs , Frauds involving Rs.50 lakhs and above upto Rs.100 lakhs , Frauds involving Rs.100 lakhs and above is provided in the RBI's Master r Circular on 'Frauds – Classification and Reporting' dt 1.07.2013 (any reader interested in further details may refer RBI Website)
- In respect of frauds in borrowal accounts, additional information as prescribed under Part B of FMR – 1 should also be furnished.
- Banks also should submit Quarterly Reports on the 'Progress on Frauds Reported', 'Fraud Reports Closed' etc.

Magnitude of Bank Frauds: Bank frauds have been increasing year by year. Frauds in internet banking area are also rising. The following details speak volumes about the monster 'fraud'. Some of the findings from "India banking fraud survey - 2012 Navigating the challenging environment" Deollite Consulting:

- The average loss per incident for nearly half of the respondents is more than Rs 10 lakhs
- The average value of recovery for more than half of the respondents is less than 25% of the reported fraud losses
- Retail Banking has incurred the maximum number of fraud incidents
- "Lack of oversight by line managers or senior managers on deviations from existing process/ controls" as one of the major reason followed by "current business pressure to meet targets" and "difficult business scenario" as other two major reasons for increasing fraud incidents.

Important excerpts from Inaugural address by Dr. K. C. Chakrabarty, (Deputy Governor, Reserve Bank of India on July 26, 2013 during the National Conference on Financial Fraud organized by ASSOCHAM at New Delhi) on '**The Frauds in the Banking Sector: Causes, Concerns and Cures**':

- While the number of fraud cases has shown a decreasing trend from 24791 cases in 2009-10 to 13293 cases in 2012-13 i.e. a decline of 46.37%, the amount involved has increased substantially from Rs 2037.81 crore to Rs. 8646.00 crore i.e. an increase of 324.27%.
- The large value fraud cases involving amount of Rs.50 crore and above, has also increased more than tenfold from 3 cases in FY 2009-10 (involving an amount of Rs 404.13 crore) to 45 cases in FY 2013 (involving an amount of Rs 5334.75 cr)
- A closer examination of the reported fraud cases has revealed that around 65% of the total fraud cases reported by banks were technology related frauds (covering frauds committed through /at internet banking channel, ATMs and other alternate payment channels like credit/ debit/ prepaid cards) while **the advances portfolio accounted for a major proportion (64%) of the total amount involved in frauds.**

Figure 1 - Year-wise no. and amount of fraud cases in the banking sector

(No. of cases in absolute terms and amount involved in Rs. Crore)

Year	No. of cases	Total Amount
2009-10	24791	2037.81
2010-11	19827	3832.08
2011-12	14735	4491.54
2012-13	13293	8646.00
Total frauds reported as of March 2013	169190	29910.12

(No. of cases in absolute terms and amount involved in Rs. Crore)

Figure 2 - Bank Group wise Advance Related Frauds (Rs. 1 Crore & above in value)

	2009-10		2010-11		2011-12		2012-13		Cumulative total (As at end March 2013)	
Bank Group	No. of cases	Amount Involved	No. of cases	Amount Involved	No. of cases	Amount Involved	No. of cases	Amount Involved	No. of cases	Amount Involved
Nationalised Banks including SBI Group	152	736.14	201	1820.12	228	2961.45	309	6078.43	1792	14577.3
Old Private Sector Banks	16	99.1	20	289.31	14	63.31	12	49.87	149	767.75
New Private Sector Banks	10	63.38	18	234.18	12	75.68	24	67.47	363	1068.18
Sub-total	26	162.48	38	523.49	26	138.98	36	117.34	512	1835.93
Foreign Banks	4	45.26	3	33.2	19	83.51	4	16.75	456	277.05
Grand Total	182	943.87	242	2376.81	273	3183.94	349	6212.51	2760	16690.3

(No. of cases in absolute terms and amount involved in Rs. Crore)

Figure 3 - Bank Group wise Technology Related Frauds										
	2009-10		2010-11		2011-12		2012-13		Cumulative total (As at end March 2013)	
Bank Group	No. of cases	Amount Involved	No. of cases	Amount Involved	No. of cases	Amount Involved	No. of cases	Amount Involved	No. of cases	Amount Involved
Nationalized Banks including SBI Group	118	1.82	143	3.39	172	7.26	190	9.85	824	25.6
Old Private Sector Banks	9	0.15	4	0.46	9	0.06	6	1.09	55	2.3
New Private Sector Banks	14387	34.53	9638	21.41	6552	16.54	3408	33.97	74321	183.48
Sub Total	14396	34.68	9642	21.87	6561	16.6	3414	35.06	75200	211.38
Foreign Banks	5273	26.88	4486	14.77	3315	14.6	5161	22.45	36455	145.95
Grand Total	19787	63.38	14271	40.03	10048	38.46	8765	67.36	111655	357.33

(No. of cases in absolute terms and amount involved in Rs. Crore)

How to file a complaint?

- First thing the customer has to do is to inform his Bank and Brach where he is maintaining the account about the fraud.
- He has to file a complaint with the Cyber Crime Cell of the city where he lives or where the incident occurred giving details about the incident, where, when, why, how etc.

Suggestions to prevent/reduce non-cyber frauds

- **Strict implementation of KYC (Know Your Customer) norms** prescribed by RBI. *KYC norms should be implemented in the spirit and understanding the objective of KYC. No customer should be denied banking service under the pretext of KYC. Lot of articles have come on the Banks' reluctance to open 'Zero Balance' accounts (Basic Savings Bank a/c for those who do not have the requisite KYC documents).* No KYC document submitted (Xerox Copy) be attested without seeing the original.
- **On the operational front, scanning of signature of accounts immediately** an account is opened/signature modified is very important. Whenever large cash transactions are involved discreet enquiries be made about the purpose.
- **There shall be strict vigil over 'Dormant Savings and Current a/cs' and ' Overdue Fixed Deposits' transactions**. Converting a dormant account into active or payment of long outstanding overdue deposits should be authorized only at the level of Branch Head.
- **Conversion of Single Accounts into Joint Accounts** shall be authorized only by the Branch Head. Many instances have occurred where with the connivance of Bank Staff outsiders have drawn a huge balances from less operated accounts by adding another name and getting the cheques signed by the new account holder passed.
- Good number of frauds occur due to **non adherence to the Bank's systems and procedures by staff**. Hence, regular training should be given to the staff about the importance of following the rules and regulations
- **Rotation of Staff** is the 'Brahmastra' to reduce all staff related frauds. No staff should work in the same dept for more than one year.
- **Advances Staff shall be well trained in the area of Project Appraisal**. The genuineness of the project report submitted should be ensured by cross checking with a customers' past records, industry figures and other competitors (if the branch has those accounts). In these days of Excel, anyone can prepare a Project Report with all viable figures under various parameters (Current Ratio, Debt Equity Ratio, Debt Service Coverage Ratio, Sensitivity Analysis). *A banker should take a Project Report showing a Current Ratio of 1.33 with a pinch of salt because no company can get that exact number which is recommended by Tandon Committee on Working capital finance (Method II of lending).*
- **Close Monitoring/Follow up of advance accounts** *by visiting the factory and seeing their records would reduce the probability of fake statements.*
- **Submission of false documents regarding collateral:** Officers in Advances Dept (themselves, if possible) or Advocate on Bank's Panel should personally visit the Sub Registrar's Office to ensure the genuineness of the title deeds submitted as collateral security. *The recent initiative of the Government in setting up a Central Electronic Registry, under SARFAESI Act, 2002 is a welcome step in this direction. As per the RBI guidelines, every bank has to register details of all loans where security is by means of 'Equitable Mortgage by Deposit of Ti-*

tle Deeds'. It is open to any Bank to get details about any property from the Registry before they take them as security and create charge. In a few years from now, once this is well established, the fraud due to dual financing against same property will be eliminated.

- **Borrowing from multiple banks with the same security and for same purpose** *can be avoided by Proper Due Diligence at the time of sanction of loan (Credit Investigation Process) and not entertaining borrowers who are already defaulters to other banks or those residing in areas far away from the concerned branch.*
- **Strict control over the daily use of DD Book**s and Pay Order Books and safe keeping of unused books overnight, keeping the stationery of cheque books, DD Books and Pay Order books in dual lock system, ensuring maintenance of 'Daily Movement Register' for the DD Book and Pay Order Book which is in current use
- **Holding accountable all professionals and experts who have wrongly certified** the financial statements, given clear title report and over-valuation of the property.

Suggestions for Prevention of Cyber Frauds

1. Passwords: The passwords to transaction accounts should not be saved as defaults on the system or on the system. Passwords should be a combination of alpha numeric and special characters and changed on a regularly. A smart way of having a strong yet easy-to-remember password for us Indians is to have a word(s) from our mother tongue along with a special character. For example in Hindi it can be 'Meri-jaan!'. The selection of password and usage of virtual keyboards have to be taken seriously by any individual who is engaged in online transactions.

2. Secure connections: Internet (secure connections indicated by https://) and Wi-Fi connections that are not secure should not be used to conduct online or mobile banking activities. Using cyber centers or publicly available free Wi-Fi connections for transacting is strictly not advisable. The high probability of the presence of bots and spyware installed on systems, whose sole aim is to collect confidential data such as username, passwords etc pose a threat to privacy of information. Zeus and Spy Eye are example of bots that hackers used to commit online frauds. Hackers usually monitor connections that are not secure to gain control onto the system and capture confidential data.

3. Judicious installation of Third party software: Downloading of third party software which are not certified by certification authorities or available at dubious websites (most of the browsers display a warning if the certificate of the accessed site is invalid or expired) pose a threat to the devices on to which they are downloaded – PCs, desktops or even mobile phones. These softwares might interfere with the security, privacy and control policies of the user and hence pose a threat. The third party software may contain embedded softwares that installs virus/Trojans/worms/adware etc to collect and transmit information without any notification to the users.

4. Regular updation of operating system software and browsers: The bugs or problems identified in the operating systems/software are usually corrected by the organizations that build the software and they release the updated and corrected versions of the software/browsers. Care has to be taken to update these releases on the PC or any device used in executing the online transactions. Antivirus, anti-spyware and firewalls should be installed as a precautionary measure.

5. Have an effective spam filter to eliminate spam from your mail boxes – this cuts down the phishing mails.

Conclusion: Technology has helped us to do banking without going to the branch, not having restrictions about working hours, holidays, etc. However, on the negative side of it, this has resulted in a new type of frauds called Cyber Frauds – using technology to commit frauds in customers' accounts. The amount involved in Bank Frauds so far is to the tune of Rs.29,910 Crores. Of these, Rs.16,690 Crores (56%) pertain to frauds of Rs.1 Crore and above. Technology Frauds during the four year period 2009-10 to 2012-13 accounted for Rs.357 crores. The trend in technology frauds is bound to increase due to daily innovations in the Banking using technology. We are sure, knowledge of various risks associated with banking and the preventive measures suggested above would benefit every stakeholder and in particular the account holder who faces lot of difficulties in getting back the money which has been wrongly debited to his account.

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AN ANALYSIS OF CASH TRANSACTION REPORTING (CTR) BY BANKS WITH REFERENCE TO MONEY LAUNDERING IN INDIA

It has been found that statistically there is a significant difference between the expected number of CTR reporting from public, private and foreign banks as compared to their actual observed reporting. Therefore, it can be concluded that there is a bias in the number of CTR reports published by these banks

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Marketing executives in commercial banks are working under tremendous pressure to fulfil their business targets at any cost. These executives are selling various banking and insurance products of high value without adhering strictly to KYC norms, allowing high-magnitude cash transactions and even fill in forms with wrong permanent account number (PAN) to facilitate transactions. Even, there have been instances where RBI has found that money was deposited in certain accounts through countless demand drafts valued at between Rs 49,500 and Rs 49,900 within months. These transactions shor-circuited the transaction-tracking process and helped the customers to evade tax and may have even facilitated money laundering. The banks involved may feign ignorance of this, but under the norms of Prevention of Money Laundering Act, 2002, they are required to file Cash Transaction Report (CTR) and suspicious transaction reports (STRs) to Financial Intelligence Unit (FIU).

Money laundering (ML) has always been a matter of discussion for government of all the countries. Money Laundering is the process of concealing the source of money obtained by illicit means. The methods by which money may be laundered are varied and can range in sophistication. In 1996, the International Monetary Fund estimated that two to five percent of the worldwide global economy involved laundered money. In India the Prevention of Money Laundering Act 2002 (PMLA), comes into effect on July 1, 2005. Section 12 (1) of PMLA prescribes the obligations on banks, financial institutions and intermediaries (a) to maintain records detailing the nature and value of transactions which may be prescribed, whether such transactions comprise of a single transaction or a series of transactions integrally connected to each other, and where such series of transactions take place within a month; (b) to furnish information of transactions referred to in clause (a) to the Director (FIU) within such time as may be prescribed and the records of the identity of all its clients. Section 12 (2) of PLMA prescribes that the records referred to in sub-section (1) as mentioned above, must be maintained for 10 years after the transactions finished.

This law lays down the mandates for reporting Cash Transaction Reports, Suspicious Transaction Report and Counterfeit currency transactions to the Financial Intelligence Unit

(FIU). Each government is expected to set up a FIU according to recommendations from the United Nations. These FIU institutions help in the implementation of the Money Laundering Act. In India we have the FIU under the Department of Revenue, Ministry of Finance, India. Implementation of Anti Money Laudering Act is through Financial Intelligence Unit and Enforcement Directorate.

Role of Financial Intelligence Units in India

FIU are specialized government agencies created to act as an interface between financial sector and law enforcement agencies for collecting, analyzing and disseminating information particularly about suspicious financial transactions.

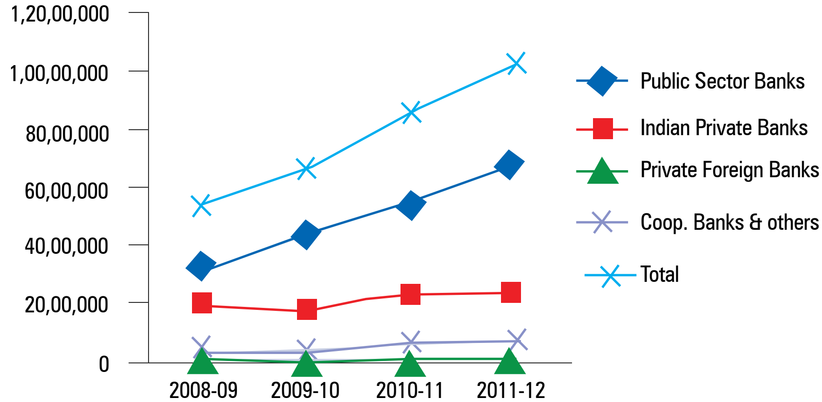
Financial Intelligence Unit – India (FIU-IND) was set by the Government of India in 2004 as the central national agency responsible for receiving, processing, analyzing and disseminating information relating to suspicious financial transactions. FIU-IND is also responsible for co-ordinating and strengthening efforts of national and international intelligence, investigation and enforcement agencies in pursuing the global efforts against money laundering and related crimes. FIU-IND is an independent body reporting directly to the Economic Intelligence Council (EIC) headed by the Finance Minister.

The main function of FIU-IND is to receive cash/suspicious transaction reports, analyse them and, as appropriate, disseminate valuable financial information to intelligence/enforcement agencies and regulatory authorities.

Reporting requirements of banks

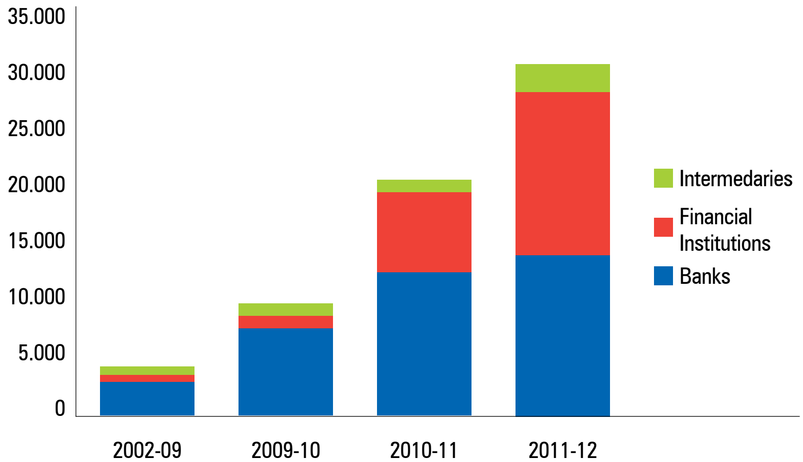
Cash Transaction Report is defined in the Prevention of Money Laundering law as list of transactions having value above Rs 10 lakh which are to be reported by banks to the FIU.

Table 1: Trends of CTR (2008-9 to 2011-12)



Source: Annual report 2011-12, Financial Intelligence Unit, Ministry of Finance, India

Table 2: Trend of STR in last five years



Cash Transaction Report

PMLA requires banks, financial institutes and capital market intermediaries to furnish the FIU information related to:

- All cash transactions of the value of more than rupees 10 Lakhs or its equivalent in foreign currency.
- All series of cash transactions integrally connected to each other, which have been valued below ruppees 10 Lakhs or its equivalent in foreign currency where such transactions take place within a month.

Cash transactions are to be reported on monthly basis by 15th day of the month. (See **Table 1**)

In 2011-12, 10.1 million CTRs were received by the FIU – IND of which 99.96% were in electronic form.

Suspicious Transaction Report

Under PMLA 2002, reporting entities are required to report suspicious transactions to FIU. Rule 2(1)(g) of the PMLA Rules defines a suspicious transaction as a transaction, whether or not made in cash, which to a person acting in good faith –

- Gives rise to a reasonable ground of suspicion that it may involve the proceeds of crime of an offence specified

in the schedule to the act.
- Appears to be made in circumstances of unusual or unjustified complexity.
- Appears to have no economic rationale or *bona fide* purpose
- Gives rise to reasonable ground of suspicion that it may involve financing of the activities related to terrorism. (See **Table 2**)

Review of literature

David Chaikin (2009) has written a paper on 'How effective are suspicious transaction reporting systems?' for the emerald journal. The paper takes the Swizz reporting of STR as a case study and mentions that the low number of reporting done by them than US might be because of the higher ability of identifying the genuine cases of ML taking place in their banks since they mostly concentrate on private banking and investment management rather than retail banking. The author has investigated plausible explanations for the huge disparity between the number of STRs filed in Switzerland compared with countries such as the USA, UK and Australia. This paper doesn't explain the relative effectiveness of banks based in the same country but with different levels of ownership i.e. public, private etc.

Milind Sathye and Chris Patel (2007) have written a paper on 'Developing financial intelligence: an assessment of the FIUs in Australia and India' which was published in Emerald journal. In this paper, they discussed a comparison between the FIU in India and Australia. The similarities include: both follow the administrative model of organizing FIU, both are set up under the anti-money laundering legislation of respective countries, none of them have enforcement powers, and both are national agencies reporting to the Minister. There are also several aspects with respect to which they differ. AUSTRAC is a money laundering and terrorist financing regulator. FIU_IND is anti-money laundering agency but there is no mention of combating terrorist financing in the role of FIU_IND. This paper however does not explain the bias in material being reported to FIUs.

Jos de Wit (2007) has written a paper in Emerald journal on 'A risk-based approach to AML A controversy between financial institutions and regulators.' The paper outlines the controversy present between financial institutions and regulators in the approach to AML. Regulators utilize framework advised by FATF 40 recommendations in customer acceptance policy, customer identification, ongoing monitoring of accounts and transactions and risk management. Financial institutes like banks put in place policies for these in terms of customer with standard approach and customer with advanced approach. IT systems are used by financial institutes to implement this framework in their banks. This paper however does not prove with 100% surety that financial institutes comply with these regulations to catch all cases of ML. This paper tries to find out the efficiency factor in public, private and foreign banks.

Objective and Research methodology

In India, the Public, Private and Foreign banks co-exist which describe the socialistic mindset along with the capitalistic way of thinking.

The objective of this paper is to test the hypothesis that there is no statistical difference in the number of CTR reporting done by Public, Private and Foreign banks to the FIU in India with 95% significance level. The paper tries to find out if there is a bias in truthfully reporting the number of CTR between the Public sector banks, Indian Private Sector banks, Foreign Banks, and Co-operatives.

The Cash Transaction Reports are required to be submitted by all Public, Private, Indian Foreign and Cooperative banks in India to the Financial Intelligence Unit – IND.

The Observed values of the CTR reported by the Public Sector banks, Indian Private Sector banks, Foreign Banks, and Cooperatives category of banks to the FIU are taken from the Annual Report of the FIU India 2011-12. (See **Table 3**)

Table 3: Number of CTR reporting bank category wise

	Public banks	Indian Private	Indian Foreign	Cooperatives
Total number of CTR reporting	6903096	2406855	83665	8,04,646

(Source: Annual Report for Financial Intelligence unit 2011-12 India)[4]

The total number of banks in each category have been taken from the official website of Reserve Bank of India (see **Table 4**). It is assumed that all the banks are currently filing their CTR reports of FIU.

Table 4: Number of Banks in Public, private and Foreign categories in 2012

	Public banks	Indian Private	Indian Foreign	Cooperatives
Total number of Banks	26	25	29	31

It is expected that higher the amount of money deposited in a bank, there are more chances of the money transactions being used for illicit purposes like drugs, trafficking etc. Thus, if the banks are truthfully reporting the number of suspicious cash transactions through the CTR, the number of such reports to the FIU should be in proportion to their total deposits. The Expected number of CTR reporting is taken to be in proportion to the

Table 5: Total Value of deposits in Public, Private and foreign banks

	Public banks	Indian Private	Indian Foreign
Total deposit value of Banks in Indian Rupees in 2012	5001743	1174587	277,063

(Source: http://www.iba.org.in/viewmembanks.asp?id=3)[5]

Table 6: Total number of CTR in 2011-12

Total number of CTR reporting (Public + Private + Foreign Banks)	9393616

(Source: Annual report of FIU – IND India 2011-12.)

Table 7: Expected number of CTR in Public Private and Foreign banks

	Public banks	Indian Private	Indian Foreign
Expected CTR reporting in each category	7280581	1709739	403295

Table 8: Observed number of CTR in Public Private and Foreign banks

	Observed		
	Public banks	**Indian Private**	**Indian Foreign**
Total number of CTR reporting	6903096	2406855	83665

Table 9: Expected number of CTR in Public Private and Foreign banks

	Expected CTR reporting		
	Public banks	**Indian Private**	**Indian Foreign**
Expected CTR reporting in each category	7280581	1709739	403295

deposits of that category of banks in India in 2011-12.The total net deposit value of each category of banks is taken as the sum of deposits of each bank in the said categories ie. Public, Private and Foreign banks. (See **Table 5**)

The value of the deposits is given in the Appendix of this research paper.

Thus the Expected number of CTR reporting is taken to be in proportion to the total assets of that category of banks in India in 2011-12. (See **Table 6**)

The expected CTR reporting is calculated as: total number of CTR reporting * total deposit value of that category (eg Public) banks/(total value of deposits in all banks)

Formula:

$$\text{Expected CTR reporting} \quad \frac{\text{total number of CTR reporting * total deposit value of that category (eg Public)}}{\text{(total value of deposits in all banks)}}$$

Thus in 2011-12 in India, it should be as shown in **Table 7**.

Applying Chi Square test to check goodness of Fit of the above data Observed versus Expected values of CTR reporting in Public, Private and Foreign banks. Chi square test is a parametric test and non parametric test used to check Goodness of Fit. It is used to check in the variance in the observed sample is due to chance or is it because of significant difference. Therefore, the test has been used to find out if there is a statistically significant difference between the CTR reporting done in Public, Private and Foreign Banks. This compares actual against the expected number of reporting if all banks report in proportion to the total value of deposits in their bank.

$$\chi^2 = \Sigma \frac{(O-E)^2}{E}$$

O= Observed frequency of CTR reports

E= Expected frequency of CTR reports

This is a test for independence.

Degree of freedom = 3-1 = 2

Findings

The observed actual number of CTR reporting done be Public, Indian Private and India Foreign banks is as shown below in **Table 8**.

The expected number of CTR reporting done be Public, Indian Private and India Foreign banks is calculated as shown below in **Table 9**.

The formula used for calculating expected number of CTR reporting is total number of CTR reports submitted to FIU in 2011-12 divided in proportion to the deposits of various banks in Public, private and foreign category.

The value of Chi square is calculated as below.

$$\chi^2 = \frac{(6903096-720581)^2}{7280581} + \frac{(2406855-1709739)^2}{1709739} + \frac{(83665-403295)^2}{403295}$$

This value is calculated to be: 557130

Degree of freedom = 2.

Thus the value from the **Chi Square table** at a significance level of 95% for 2 degree of freedom is 5.991.

Thus the calculated value of Chi square is much more than the tabulated value of Chi square. Hence the hypothesis that the variance is due to chance is rejected.The hypothesis that there is no statistical difference in the number of CTR reporting done by public, private and foreign banks to the FIU in India with 95% significance level is rejected.

Suspicious Activity Reporting

The Suspicious Activity Reports (SAR) are required to be submitted by all Public, Private, Indian Foreign and cooperative banks in India to the Financial Intelligence Unit – IND.

This paper cannot find out to if there is a bias in truthfully and efficiently reporting the number of SAR because the data has been given for Banks, Financial institutions and intermediaries which do not have any comparison.

The Observed values of the SAR reported by the Banks, Financial institutions and intermediaries to the FIU are taken from the Annual report of the FIU India 2011-12. (See **Table 10**)

Table 10: Observed number of STR in Public Private and Foreign banks

	Expected CTR reporting			
	Banks	Financial intermediaries	Intermediaries	Total
Total number of SAR reporting	12287	14712	1656	31317

(Source: Reply to RTI application filed by Rima Bajaj and Annual report for Financial Intelligence unit 2011-12 India)[4]

Conclusion

In India Public Sector and Private Sector co-exist along with entry of Foreign Banks. Irrespective of the categories of these banks, it is mandatory for them to submit required types and number of reports as per PLMA 2002. The present paper has tried to find out truthfulness and efficiency of reporting CTRs issued by various categories of banks. It has been found that there is statistically significant difference between the expected number of CTR reporting from Public, Private and Foreign banks as compared to their actual observed reporting. Therefore, it can be concluded that there is a bias in the number of CTR reports published by Public sector, Private sector and Foreign banks. The CTR reporting is not done in proportion to the total number of deposits in these banks.

Thus, we can conclude that Indian Foreign banks avoid filing of suspicious transactions reports CTR in order to please their customers and avoid attrition on customers. They fear that their customer might get lost if they are actively reporting incidences. Another interesting finding of this paper is that Indian Private sector is actively complying with the law and submitting more reports than expected to safely conclude that they are avoiding bias.

FOREIGN BANKS IN INDIA AVOID FILING SUSPICIOUS TRANSACTIONS REPORTS CTR IN ORDER TO PLEASE THEIR CUSTOMERS AND AVOID ATTRITION ON CUSTOMERS. THEY FEAR THAT THEIR CUSTOMERS MIGHT LEAVE IF THEY ACTIVELY REPORT INCIDENCES

On the same hand Public sector banks due to their high bureaucratic impediments are sluggish in reporting and fall short of the expected number of CTR reports which is calculated to see if they are avoiding reporting. This paper cannot find out to if there is a bias in truthfully reporting the number of SAR because the data has been given for Banks, Financial institutions and intermediaries which don't have any comparison.

See **Appendices** from next page.

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Appendix A – Total deposits of Public sector banks

S.N.	Banks	Deposits		
I	NATIONALISED BANKS	2010	2011	2012
1	Allahabad Bank	106056	131887	159593
2	Andhra Bank	77688	92156	105851
3	Bank of Baroda	241262	305439	384871
4	Bank of India	229762	298886	318216
5	Bank of Maharashtra	63304	66845	76529
6	Canara Bank	234651	293437	327054
7	Central Bank of India	162107	179356	196173
8	Corporation Bank	92734	116747	136142
9	Dena Bank	51344	64210	77167
10	Indian Bank	88228	105804	120804
11	Indian Overseas Bank	110795	145229	178434
12	Oriental Bank of Commerce	120258	139054	155965
13	Punjab & Sind Bank	49155	59723	63124
14	Punjab National Bank	249330	312899	379588
15	Syndicate Bank	117026	135596	157941
16	UCO Bank	122416	145278	154003
17	Union Bank of India	170040	202461	222869
18	United Bank of India	68180	77845	89116
19	Vijaya Bank	61932	73248	83056
	TOTAL OF 19 NATIONALISED BANKS	**2416267**	**2946100**	**3386497**
II	**State Bank of India (SBI)**	**804116**	**933933**	**1043647**
III	**ASSOCIATES OF SBI**			
1	State Bank of Bikaner & Jaipur	46059	53852	61572
2	State Bank of Hyderabad	72971	88628	98732
3	State Bank of Indore*	30624	-	-
4	State Bank of Mysore	38880	43225	50186
5	State Bank of Patiala	64552	68066	79147
6	State Bank of Travancore	50883	58158	71470
	TOTAL OF ASSOCIATES [III]	**303969**	**311930**	**361107**
	TOTAL OF STATE BANK GROUP [II + III]	**1108086**	**1245862**	**1404754**
IV	**Other Public Sector Bank**			
1	IDBI Ltd.	167667	180486	210493
	TOTAL OF PUBLIC SECTOR BANKS[I+II+III+IV]	**3692019**	**4372449**	**5001743**

Appendix B - Total deposits of Private sector banks

S.No.	BANKS	Deposits		
		2010	**2011**	**2012**
1	City Union Bank Ltd.	10285	12914	16341
2	ING Vysya Bank Ltd.	25865	30194	35195
3	SBI Commercial & International Bank Ltd. $	492	513	0
4	Tamilnad Mercantile Bank Ltd.	11639	13793	17110
5	The Bank of Rajasthan Ltd. *	15062	0	0
6	The Catholic Syrian Bank Ltd.	6978	8726	10605
7	The Dhanalakshmi Bank Ltd.	7098	12530	11804
8	The Federal Bank Ltd.	36058	43015	48937
9	The Jammu & Kashmir Bank Ltd.	37237	44676	53347
10	The Karnataka Bank Ltd.	23731	27336	31608
11	The Karur Vysya Bank Ltd.	19272	24722	32112
12	The Lakshmi Vilas Bank Ltd.	9075	11150	14114
13	Nainital Bank Ltd.	2507	2825	3478
14	The Ratnakar Bank Ltd.	1585	2042	4739
15	The South Indian Bank Ltd.	23012	29721	36501
I	**TOTAL OF 15 PVT BANKS [I]**	**229897**	**264157**	**315891**
II	**NEW PRIVATE SECTOR BANKS**			
16	Axis Bank Ltd.	141300	189238	220104
17	Development Credit Bank Ltd.	4787	5610	6336
18	HDFC Bank Ltd.	167404	208586	246706
19	ICICI Bank Ltd.	202017	225602	255500
20	Indusind Bank Ltd.	26710	34365	42362
21	Kotak Mahindra Bank Ltd.	23886	29261	38537
22	YES Bank	26799	45939	49152
II	**TOTAL OF 7 NEW PVT BANKS [II]**	**592904**	**738602**	**858696**
III	**TOTAL OF 22 PVT BANKS [I+II]**	**822801**	**1002759**	**1174587**

Appendix C - Total deposits of Foreign banks

S. No	Name of the Bank	Deposit		
		2010	2011	2012
1	AB Bank Limited	34	55	45
2	Abu Dhabi Commercial Bank Limited	523	565	623
3	American Express Banking Corporation	569	519	501
4	Antwerp Diamond Bank N.V.	57	55	77
5	Australia & New Zealand Banking Group Limited			1,735
6	Bank Internasional Indonesia	0	0	0
7	Bank of America NA	5,490	5,969	5,965
8	Bank of Bahrain and Kuwait B.S.C.	515	515	672
9	Bank of Ceylon	92	97	105
10	Barclays Bank PLC	7,075	6,740	5,374
11	BNP Paribas	5,020	4,646	5,900
12	Chinatrust Commercial Bank	114	97	147
13	Citibank N.A.	54,452	56,668	64,698
14	Commonwealth Bank of Australia	0	2	11
15	Credit Agricole Corporate & Investment Bank	1,066	672	913
16	Credit Suisse AG		0	348
17	DBS Bank Ltd.	6,637	7,368	12,922
18	Deutsche Bank AG	14,693	14,646	16,843
19	FirstRand Bank Ltd.	5	25	37
20	Industrial & Commercial Bank of China Limited			0
21	JPMorgan Chase Bank	5,931	6,384	8,969
22	JSC VTB Bank	9	7	8
23	Krung Thai Bank Public Company Ltd.	107	116	143
24	Mashreqbank psc	42	60	78
25	MIZUHO Corporate Bank Ltd.	1,188	671	673
26	National Australia Bank Ltd.			0
27	Oman International Bank S.A.O.G.	172	166	155
28	Rabobank International			12
29	Sberbank		0	0
30	Shinhan Bank	692	792	1,037
31	Societe Generale	837	888	1,281
32	Sonali Bank Ltd.	32	28	31
33	Standard Chartered Bank	48,192	58,419	63,965
34	State Bank of Mauritius Ltd.	348	500	766
35	The Bank of Nova Scotia	3,454	3,655	4,682
36	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	2,199	1,654	3,284
37	The Hongkong and Shanghai Banking Corpn.Ltd.	55,748	54,107	61,423
38	The Royal Bank of Scotland	16,601	13,947	13,040
39	UBS AG	204	632	602
40	United Overseas Bank Ltd.	0	0	0
41	Woori Bank			0
	Total of Foreign Banks in India	**232,099**	**240,667**	**277,063**

Source: http://www.iba.org.in/viewmembanks.asp?id=3

A STUDY ON PRICE DESTABILIZATION IN THE INDIAN SOYBEAN MARKET

Futures open interest has a significant effect on spot volatility, thereby, suggesting that hedgers are causing price destabilization in the cash market

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The distortions in prices across *mandis* and undue gains by the middleman at the expense of the primary producer of these commodities have been a cause of concern for the Indian government. The government, in turn, has tried to empower the farmers by providing minimum support price and setting up procurement mechanism of their produce. However, these actions have been criticized in the international arena with agencies like WTO and UNCTAD pushing for market determined price mechanism. There is a global perception of using the derivative markets for the purpose of price discovery and risk management.

The concept of derivative markets, esp. forwards and futures, isn't new. In fact, trading was conducted by Bombay Cotton Trade Association Ltd. in as early as 1875. Ban on these markets was seen in 1960s when the country went through war and natural calamity. These markets have often been blamed for speculative activities and unnecessary price rise in commodities. However, researchers have also claimed that futures market helps in dissemination of risk, reduction in cost of information, creation of a more unified and visiblespot market. Figlewski (1981) said thatthe futures market is more efficient than the spot market due to lower costs, lack of short-selling restriction etc. and it rapidly disseminates information and improves the functioning of cash markets. It has also been documented that future markets lead to market depth, Bessembinder and Seguin (1992). Yang, Balyeat and Leatham (2005) have empirically shown that increase in unexpected futures trading volume causes increase in cash price volatility whereas future open interest is negatively related to volatility in spot markets.

Indian research on commodity derivatives has documented volatility-spillovers in the spot market with the introduction of futures exchange in the country. Roy (2008) studied the Indian wheat market and discovered inefficiencies in the futures market with the basis hitting zerobefore expiry of the futures contract and it also causes high volatility in futures market during their study period. Nath and Lingareddy (2008) have studied the volatility of spot markets of banned futures commodities like wheat, urad and gram. They observed that during the period of trade of these commodities on the futures exchange, their cash prices saw high volatility except for urad. The volatility reduced after ban of futures trading on these commodities. Sen (2008) submitted its report to the Forward Markets Commission (FMC) which said that futures trading in the post-exchange period had led to higher volatility in the cash markets of all the crops studied (gram, gaurseed, wheat, urad and tur) except for sugar.

The empirical research in India has been generally carried on commodities that were banned from trading on the futures market due to reports of price destabilization from futures trading activity. However, it has not been determined whether the derivative market has been able to perform the function of price discovery and setting up efficient price mechanism for commodities which are heavily traded on it. We try to fill this research gap by empirically testing the lead-lag relationship between futures trading activity and spot volatility in the Indian soybean market. We also test for the causal behavior between spot trading activity and futures volatility to test the impact of price destabilization caused by spot volume.

Product profile of soybean

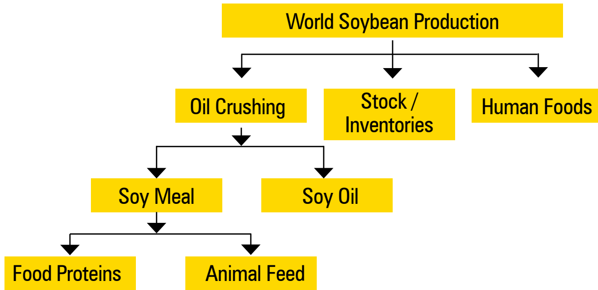
Soybean is thesecond largestsource of vegetable oil in the worldand processed soybean is the largest source of protein feed. The major portion of the crop is solvent-extracted with hexane to yield soy oil and soymeal and it is estimated that above85% of the crop is crushed worldwide. Soymeal is widely used in the animal feed industry. The cultivation of soybean is successful in climates with hot summers, with temperatures between 20°C to 30°C beingoptimum. It can grow in a wide range of soils, with optimum growth in moist alluvial soils with a good organic content. Modern soybean varieties generally reach a height of around 1 m (3 ft), and take about 80-120 days from sowing toharvesting. India is the fifth Soybean producers in year 2011 with the production of 9.8 million MT. Madhya Pradesh is the largest Soybean producing state in India. Following figures show the uses of Soybean, India's Soybean Production from 2001 to 2012 and major production states in India. (*Source: www.ncdex.com – Figure 1*)

Data and methodology

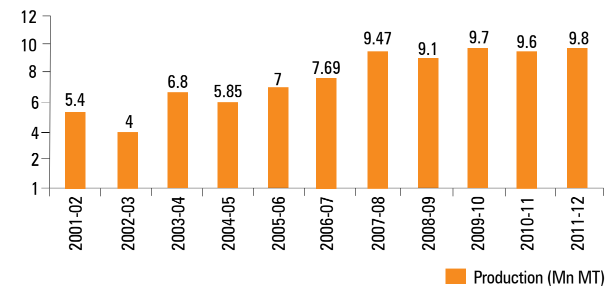
The data has been collected for daily closing spot prices, future trading activity (volume and open interest) and futures pricesfrom January 2004 till December 2010 for soybean from NCDEX website (www.ncdex.com). The spot price series has been tested for stationarity using Augmented Dickey Fuller (ADF) test. The spot prices are found to be non-stationary. Hence, the priceseries are converted into returns series using Rt = log (Pt /Pt-1) for stationarity. The results for the same are given in **Table 1** below:

The descriptive statistics of return series is given in **Table 2**. The mean returns for futures series are higher than spot series indicating that the hedgers are net buyers and prices in the futures market will fall during the life of the

Figure 1: Uses of soybean



Indian Sybean Production (in mn mt)



Sources: BP's Statistical Review of World Energy 2011

Major Production states

Name of State	Share (%)
Madhya Pradesh	60%
Maharashtra	27%
Rajasthan	8%
Andhra Pradesh	2%
Karnataka	2%
Chattisgarh	2%
Rest of India	0.12%

Table 1: ADF Test results

	Level Form		Return Form	
	t-statistic	p-value	t-statistic	p-value
Soybean Spot Price	-1.31847	0.623	-36.4178	0.0000
Soybean Future Price	-1.29891	0.6322	-44.2223	0.0001

Table 2: Descriptive statistics

	Mean	Standard Deviation	Skewness	Kurtosis
Soybean Spot Return	8.28E-05	0.005519	-4.32036	73.88095
Soybean Future Return	0.000158	0.01426	-1.1662	27.07734

contract creating a market situation known as contango. The futures market is more volatile than the spot markets as implied by the values of standard deviation. And the markets have asymmetric distribution with negative skewness implying a long left tail and most of the values concentrated in the right. Both the distributions are leptokurtic with soybean futures series nearer to the normal distribution.

The research literature on price destabilization in the cash market due to activity in futures market suggest that unexpected futures trading activity has more significant impact on volatility in the spot market, (see Bessembinder and Seguin (1992)). Hence, we calculate 21-day moving average of the daily futures volume and open interest to obtain expected trading activity. Next, expected component is subtracted from the actual trading volume and open interest to get unexpected trading activity.

To determine the significance of relationship with future trading activity,we take two proxies trading volume and open interest. The market participants are classified either as hedgers or speculators. Empirical research propounds futures volume as an estimate for speculation position and open interest for hedging positions, (see Bhargava and Malhotra (2007)).

It has been observed that stock returns have conditional error variances and therefore, we need to model volatility for its time varying pattern. To take into account the heteroscedastic effects in the error term variance, Engle (1982) modeled ARCH (Auto Regressive Conditional Heteroscedasticity) where the variance is dependent upon the lagged square error terms. The model was further extended by Bollerslev (1986) and namedGARCH (Generalized Auto Regressive Conditional Heteroscedasticity) which also consisted of past conditional variances as the dependent variable. This model, however, specifies coefficients to have non-negative constants and consists of inherent assumption that positive and negative error terms have symmetric effect on volatility. To overcome these shortcomings, Nelson (1991) introduced E-GARCH (Exponential Generalized Auto Regressive Conditional Heteroscedasticity) model which considers a fall in price to be more influential for forecasting volatility than the rise. The model is specified below:

$$\log \sigma_{st}^2 = \gamma_0 + \sum_{i=1}^{p} \gamma_i \frac{|\varepsilon_{t-i}|}{\sigma_{st-i}} + \sum_{i=1}^{p} \theta_i \frac{\varepsilon_{t-i}}{\sigma_{st-i}} + \sum_{i=1}^{q} \omega_i \log \sigma_{st-i}^2$$

The above equation does not restrict ε_t to have non-negative coefficients and thereby it can have separate effects on volatility. We have modeled EGARCH (1, 1). To obtain the effect of unexpected futures trading activity on conditional spot volatility, we test for the lead-lag relationship between the two, using Granger Causality Test. The causality test is run for unexpected futures volume and cash volatility, unexpected future open interest and cash volatility. The equation specification for future volume and spot volatility is as follows:

$$y_{fvolt} = \alpha_1 + \sum^{p} \beta_i y_{fvolt-i} + \sum^{q} \gamma_j x_{st-j} + \varepsilon_t$$

Where y_{fvolt} is the futures volatility, x_st cash volatility and ε_t are white noise residuals. And for future open interest and spot volatility:

$$y_{foit} = \alpha_1 + \sum_{i=1}^{p} \beta_i y_{foit-i} + \sum_{j=1}^{q} \gamma_j x_{st-j} + \varepsilon_t$$

Where y_{foit} is the future open interest, x_{st} cash volatility and ε_t are white noise residuals.

We also test for lead-lag relation between spot trading activity and future volatility.

$$y_{svolt} = \alpha_1 + \sum_{i=1}^{p} \beta_i y_{svolt-i} + \sum_{j=1}^{q} \gamma_j x_{ft-j} + \varepsilon_t$$

Where y_{svolt} is the spot volume, x_{ft} future volatility and ε_t are white noise residuals.

Results and conclusion

The results for Granger Causality Test are as given in **Table 3, 4** and **5**.The granger causality results don't show any significant level of impact of futures volume on volatility of cash markets.

Table 3: Granger Causality Test Results -Futures volume and Spot volatility

	F-Statistic	Prob. Value	Significance
Future Volume ➛ Spot Volatility	1.01603	0.3622	
Spot Volatility ➛ Future Volume	0.54116	0.5822	

** Significance Level At 5% and ** Significance level at 10%*

In **Table 3**, we see that futures open interest has a significant effect on spot volatility, thereby, suggesting that hedgers are causing price destabilization in the cash market. Our results are not consistent with research literature which suggests unexpected futures trading volume causes

Table 4: Granger Causality Test Results -Futures open interest and Spot volatility			
	F-Statistic	**Prob. Value**	**Significance**
Future Open Interest ➛ Spot Volatility	2.336	0.097	**
Spot Volatility ➛ Future Open Interest	1.92715	0.1458	
** Significance Level At 5% and ** Significance level at 10%*			

Table 5: Granger Causality Test Results -Spot volume and Futures volatility			
	F-Statistic	**Prob. Value**	**Significance**
Spot Volume ➛ Future Volatility	2.47416	0.097	**
Future Volatility ➛ Spot Volume	4.21521	0.0149	*
** Significance Level At 5% and ** Significance level at 10%*			

cash price volatility, (see Yang, Balyeat and Leatham (2005), Bessembinder and Seguin (1992) and Nath and Lingareddy (2008)). However, our results in **Table 4** are in conformity with Chen, Cuny and Haugen (1995) which suggests that increased open interest increases volatility.

Also, **Table 5** shows a significant bi-directional feedback between futures volatility and spot volume. The soybean spot market trading activity has a significant influence on the volatility in futures market. The futures soybean market is also encouraging further speculative interest in cash markets. The reverse causal behavior suggests that information spillover is taking place from spot markets. The information is being generated and processed in the spot markets and then sent across to future market. The futures markets are unable to provide market depth or perform the function of efficient price discovery for the soybean crop. Thereby the futures market doesn't seem to be playing a dominant role. The policy implications for these findings advocate further development of futures market.

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CORPORATE GOVERNANCE AND CAPITAL STRUCTURE: EVIDENCE FROM SELECT INDIAN PHARMACEUTICAL COMPANIES

This study finds out that the quality of corporate governance has implications on capital structure decisions of Indian pharmaceutical companies

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Funding is a crucial activity for any business. In a capitalist economy, financing is fundamental to the viability of companies and to the persistence of the capitalism itself. The availability of funds depends on the efficient allocation of resources by the economic agents from financial markets to productive investments. (Toledo) The suppliers of funds are interested in getting good returns on their investments. They expect the managers to invest in profit making activity which ensures fair returns on the money invested. They would always want managers to grab every profit making opportunity and do away with bad investments. They trust the companies having good governance qualities, practices and mechanisms. In addition to the financial data depicting the profitability and other quantitative performance indicators, the information about the quality of corporate governance is also a significant determinant for investors while taking the vital decision to invest their money.

The aim of corporate governance reform is to create an enabling environment to ensure that that foreign and domestic long term "patient" capital is available to fund corporate growth and preserve private savings for retirement. (WorldBank & IMF, 2004)

Corporate governance

Corporate governance describes how companies ought to be run, directed and controlled. It is about supervising and holding to account those who direct and control the management. (Cadbury, 1992). Corporate Governance deals with the rights and responsibilities of a company's management, its board, shareholders and various stakeholders. (OECD). It is defined by Shleifer & Vishny(1997) as a set of mechanisms relevant to economic efficiency due to its influence over the decision of investors to provide finance, debt or equity, to the firm. The purpose of a governance structure is to assure a significant flow of capital to the financing of firms. Corporate governance includes the structures, processes, cultures and systems that engender the successful operation of the organisations. (Keasey, Thompson, & Wright, 1997)

Direction and control of corporate bodies are the basic activities of the board. These activities lay the foundation for future progress of business. Corporate governance is the framework that ensures accountability. Once it is in place, companies are free to go about their way in creating shareholder value and registering growth. (Joshi, 2004)

Corporate governance is a philosophy and mechanism that involves processes and structure which facilitate the creation of shareholder value through management of the corporate affairs. Corporate governance aims at protecting the individual and collective interest of all the stakeholders. Sound corporate governance principles are the foundation upon which the trust of investors and lenders is built. Good corporate governance practices may have significant influence on the strategic decisions of a company such as external financing that are taken at board level. (Hasan & Butt, 2009) .

Corporate governance can therefore be described as the process, system, structure and mechanisms used to direct, control and manage the business affairs of the company towards enhancing business prosperity and corporate accountability with the ultimate objective of realizing long-term shareholder value. It also focuses on the interests of other stakeholders.

Indian pharmaceutical sector scenario

India's pharmaceutical sector will touch US$ 45 billion by 2020, according to a major study by global management and consulting firm, McKinsey & Company. India's pharmaceutical market has experienced a boom by reaching US$ 18 billion in 2012 from US$6 billion in 2005. The report further states that the Indian pharmaceutical market will be the sixth largest in the world by 2020.

According to IBEF[1] report, December, 2013, the domestic pharmaceutical market has reported total sales of Rs. 6,883 crores in the month of July 2013, a growth of 13.5 per cent. The major factors responsible for this growth are increasing sales of generic medicines, continued growth in chronic therapies and greater penetration in rural markets.

The exports of pharmaceuticals from India grew to US$ 14.6 billion in 2012–13 from US$ 6.23 billion in 2006–07, registering a compound annual growth rate (CAGR) of around 15.2 per cent. The Ministry of Commerce has set a target for Indian pharmaceutical sector exports of US$ 25 billion by 2014 at an annual growth rate of 25 per cent.

Review of literature

The corporate governance aims at protecting the interest of shareholders. Better corporate governance structure encourages the investors to supply funds to the company. The capital structure decisions are taken at board level. These decisions are believed to be influenced by the quality of corporate governance. Good corporate governance is essential for companies that want access to capital and for countries that want to stimulate private sector investment. Well run companies are able to attract investors whose support can finance faster growth. Poor corporate governance can pave the way for financial difficulties. (OECD)

The empirical research unfolds the relationship between corporate governance and capital structure decisions. Some of the contributions are cited below.

Gompers et al (2003), Du and Dai (2005) and Kumar (2005) have analyzed the relationship between corporate governance and debt finance. Haquel & Kirkpatrick(2008) study the impact of overall firm-level governance practices on debt financing of non-financial listed companies in Bangladesh. Abor (2007) analyses the effect of corporate governance on financing decisions of Ghanaian firms. Abor & Biekpe (2007) examine the relationship between corporate governance and capital structure decisions of Ghanaian Small and Medium Enterprises by using multivariate regression analysis. The effect of corporate governance attributes such as board size, outside directors, ownership concentration, managerial ownership, director remuneration, and CEO duality on capital structure choices of Pakistani firms listed on the Karachi Stock Exchange, Pakistan,

[1]India Brand Equity Foundation

during 2004-2008 is studied by Sheikh & Wang (2012). The relationship between corporate governance and capital structure for Pakistani listed companies has been investigated by Hasan & Butt (2009). They examine the effects of corporate governance and ownership structure on capital structure decisions of Pakistani listed companies since the announcement of Code of Corporate Governance by Securities Exchange Commission of Pakistan in 2002. They argue that corporate governance is generally associated with the existence of agency problem and its roots can be traced back to separation of ownership and control of the firm. According to modern corporate finance theories, agency cost is one of the determinants of capital structure whereas corporate governance is structured to alleviate agency issues; hence corporate governance and capital structure are linked through their association with agency costs. (Hasan & Butt, 2009).

Corporate governance criteria

Institutional criteria

The firm operates within the legal and institutional framework of the respective country. The institutional measures of corporate governance therefore depend on the legislative structure applicable to the firm.

Haque et al present a conceptual framework of corporate governance and capital markets. They observe that the quality of corporate governance represented by various firm level criteria is derived from the insitutional framework of the country in which the firm operates. The institutional framework comprises of the political economy factors, legal and regulatory activism and markets and competition. (Haque, Arun, & Kirkpatrick). The better corporate governance results in to better performance. The legal protection of investor rights is one essential element of corporate governance. (Shleifer & Vishny, 1997). The strong institutional framework is the prerequisite for any firm level governance criteria. The firm level corporate governance provisions partially compensate for ineffective laws and weak legal environment. (Klapper & Love, 2002). Similar observations were recorded by Gugler et al in a study carried out for more than 19000 companies from 61 countries across the world. The origin of a country's legal system proves to be the most impactful factor in improving the return on investment by the firm. Differences in investment performance related to a country's legal system dominate differences related to ownership structure. Strong external capital markets improve the investment performance of companies (Gugler, Mueller, & Yurtoglu, 2001).

The institutional framework defines the codes and rules but the efficiency of corporate governance depend on the ability, willingness and morality of the people who put them to use. The firm specific factors therefore become more relevant in determining the quality of governance mechanism.

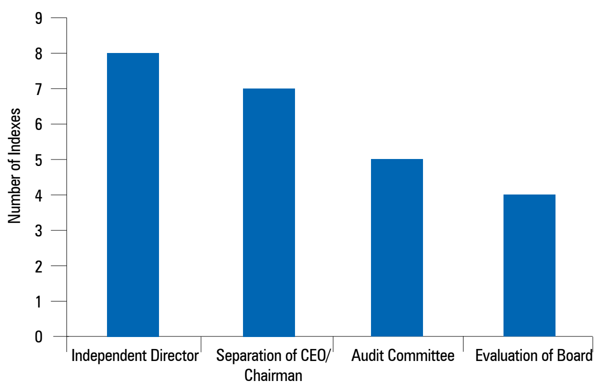
Firm level criteria

The firm level criteria of corporate governance vary from company to company. Therefore the firms operating within the common legal framework may show dissimilarities in the quality of corporate governance.

The Cadbury Committee Report on the financial aspects of corporate governance focuses on the control and reporting functions of boards, and on the role of auditors. It states that boards of directors are responsible for the governance of their companies. The responsibilities of the board include setting the company's strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to shareholders on their stewardship. The report further argues that the financial reporting should be honest and should present a balanced picture of the state of the company's affairs. The integrity of reports depends on the integrity of those who prepare and present them. Tests of board effectiveness include the way in which the members of the board as a whole work together under the Chairman, whose role in corporate governance is fundamental, and their collective ability to provide both the leadership and the checks and balances which effective governance demands. The structures and rules are important because they provide a framework which will encourage and support good governance, but what counts is the way in which they are put to use. The responsibility for putting the code into practice lies directly with the boards of directors of listed companies.

It has been observed in the report published by World Bank in June 2013that with respect to governance criteria; issues addressing the role of the board of directors overwhelmingly dominate the criteria. However, the composition and role of the board is often addressed only in the voluntary framework of corporate governance codes. Board composition and qualification is thus an effective target with which to differentiate companies from the rest of the mar-

Table 1
Most common governance criteria



Source: World Bank Report: 'Raising the bar of Corporate Governance, 2013' ket. Following graph depicts the most commonly used governance criteria as per the World Bank Report, 2013.

The authors reviewed literature on the relationship between corporate governance and capital structure to understand various firm level criteria/ measures used for describing corporate governance qualities. (**Ref. Table 1**)

Relationship between firm level criteria and capital structure

ownership structure and capital structure

The ownership structure of firm explains the proportion of shares held by various categories of shareholders. The major categories are promoters, managers, institutions and retail investors. It is observed that the ownership structure plays a substantial role in taking capital structure decisions. The term 'ownership structure 'has been used in place of 'capital structure' by Jensen and Meckling (1976) to highlight the fact that along with the variables, equity and debt, the third variable , fraction of equity held by the manager is also crucial. They argue that managerial shareholding reduces managerial incentives to consume perquisites and expropriate shareholders' wealth and results in alignment of the interests of management and shareholders. It also reduces the propensity to involve in non-maximizing behaviour. Many researchers have observed that the proportion of shares held by managers determine the extent to which major decisions can be controlled by the management and thus influence the capital structure. Management is assumed to know more about the firm's value than potential investors. Myers & Majluf (1984) studied the impact of this superior information on firm's financing and investment decisions. They observed that when managers have superior information, and stock is issued to finance investment, stock price will fall, other things equal. This action is nevertheless in the (existing) stockholders' interest. If the firm issues safe (default-risk free) debt to finance investment, stock price will not fall.

The evidence for the relationship between managerial holding and leverage of the firm is mixed.

The higher than optimum debt can be used by the management for their own benefit. This implies that higher the managerial ownership, greater is the ability and desire of managers to adjust debt ratio by their own interest. (Lang, 1987).

Fama & Jensen (1983) argue that managerial shareholding may have adverse effects on agency conflicts and it may entrench the present management leading to an increase in managerial opportunism. The managers of a firm may make efforts to expand the firm beyond its optimal size for their personal gains and this may result in increase in gearing levels. These efforts may lead to greater power and status for managers but it will have a negative impact on firm efficiency. (Jensen M. C., 1986)

The relationship between CEO stock ownership and leverage was also found to be significant by Berger et al (1997). They observe significant positive relationship between leverage and CEO direct stock ownership. The results of their study indicate that entrenched CEOs make efforts to remain away from debt and gearing ratios remain lower in the absence of demand from owners. A critical examination of changes in leverage levels reveals that gearing levels move upward when steps to reduce entrenchment are taken. They observe a significant positive relationship between leverage and CEO vested option holding. The option variables show greater economic significance than the variables for direct stock ownership.

Some studies however observe negative relationship between managerial holding and leverage.

Lang (1987) discusses a theory and argues that if management loses its stake at bankruptcy, it may desire to use an amount of debt that is less than optimum to reduce its bankruptcy risk implicit in a higher debt level. Keeping debts at less than optimum level also maximises firm value. The role of managerial self-interest as a motivating factor in making capital structure decisions has been discussed by Friend & Lang in 1988. They find that there exists a negative relationship between debt ratio and management's shareholding. This indicates that in the absence of any non-managerial principal stockholder the tendency of low debt to equity ratio will continue. The non –diversifiable risk of debt to management is greater than that to public investors. (Friend & Lang, 1988). Hasan & Butt (2009) and Sheikh & Wang (2012) find that the managerial ownership is negatively related with leverage.

Berger, Ofe k, & Yermack (1997) find that the CEO's tenure in the office has a negative association with leverage.

It was observed for American firms from 1988 to 2003, that managers sell shares when a firm's stock is performing well, large contemporaneous decreases in managerial ownership are associated with increases in Tobin's q. (Fahlenbrach & Stulz, 2007)

Large block holding

The proportion of shares held by a block of shareholders which may comprise of promoters and / or founding families affect the capital structure decisions of the firm. These shareholders have the controlling powers due to higher proportion of shares held by them and use the leverage for their benefit.

Shleifer & Vishny (1997) submit that a conflict of interests can occur between large controlling block holders and minority shareholders. The large investors can cause massive agency problems through direct or indirect expropriation of minority shareholders as well as employee rights. (Shleifer & Vishny, 1997)

In the study carried out by Sheikh & Wang (2012) for Pakistani firms, the ownership concentration is found to be positively related to the total debt ratio and the long-term debt ratio.

A direct relationship is found between block holder share ownership and debt/equity ratio by Fosberg (2004). This suggests that monitoring by block holders is effective in controlling the suboptimal debt usage agency problem.

The capital structure pattern in many developing economies like Bangladesh seems to suffer most from the agency problems created by the founding family or controlling shareholders. (Haquel & Kirkpatrick, 2008).The controlling shareholders of poorly governed family-controlled firms tend to exercise direct or indirect influence in the firm's financing decisions. This is in their interest and results in reduced rights for minority shareholder. These controlling shareholders want to preserve authority and informational advantage by choosing readily available bank debt toward meeting the firm's financing needs. This helps in retaining or increasing ownership or control. The positive association found by Haquel & Kirkpatrick (2008) between ownership concentration and financial leverage supports this argument. The ownership concentration – which is measured by the presence of a controlling shareholder and the presence of large block holdings – and leverage are observed to be the significant governance mechanisms for the firms in Spain. (Toledo)

Institutional holding

The institutional investors consider the quality of corporate governance to be an important factor while taking the decision of investing in the firm. McKinsey & Company (2000) surveyed more than 200 institutional investors from 31 countries and it was observed that the institutional investors put corporate governance quality at par with the other financial indicators while evaluating the investment decision

Chung & Zhang (2011) observe that the institutional shareholding proportion increases with the improvement in quality of corporate governance and good governance structure.

This observation held well across all types of institutional investors.This relationship was observed to be economically significant. The study revealed the most attractive governance provisions to be, the composition/ operation of the board of directors or the provisions that are designed to strengthen shareholders' rights. Corporate Governance was studied as a means to attract the institutional shareholders. The study also tested if the positive relation between governance quality and institutional ownership is driven by reverse causality. (i.e. institutional investor activism causes the firm to adopt better governance practices). It indicates that the positive relation between institutional holding and corporate governance is driven at least in part. (Chung & Zhang, 2011) However, positive but insignificant relationship was observed between institutional ownership and leverage by Hasan & Butt (2009).

Board size

The board of directors is the highest body of a company that is responsible for managing the firm and its operations. It plays vital role in strategic decisions regarding choice of funding source.

The evidence regarding the relationship between board size and capital structure is diverse.

Berger et al (1997) find that board size is negatively associated with leverage.The CEOs with small board are being monitored closely and therefore are less entrenched[2] and issue more debts.

The negative relationship between board size and leverage ratios is observed for Ghanaian small and medium enterprises (SMEs). The SMEs with larger boards generally have low level of gearing. (Abor & Biekpe, 2007).

Hasan & Butt (2009) find that the size of board is negatively correlated with debt to equity ratio indicating larger boards may exert pressure on managers to follow lower gearing levels and enhance firm performance.

Some studies support the positive relationship between board size and leverage.

The companies with high gearing level rather have larger boards. (Jensen & Meckling, 1976) Wen (2002) also finds positive relationship between board size and capital structure. He argues that large boards follow a policy of higher levels of gearing to enhance firm value especially when these are entrenched due to greater monitoring by regulatory authorities. It is also argued that larger board may find difficulty in arriving at a consensus in decision which can ultimately affect the quality of corporate governance and will translate into higher financial leverage levels.

Abor (2007) observes significant and positive associations between capital structure and board size.

Hasan & Butt (2009) used multivariate analysis and established the significant positive relationship between board size and capital structure for Pakistani listed companies.This observation was reinforced in 2012 and it was observed that the board size is positively related to the total debt ratio and the long-term debt ratio of firms listed in Karachi Stock Exchange. (Sheikh & Wang, 2012)

[2] Entrenchment is the extent to which the managers fail to experience the discipline from the full range of corporate governance and control mechanisms, including monitoring by the board, the threat of dismissal or takeover and stock or compensation based performance incentives. Entrenched managers by definition have discretion over their firm's leverage choices.

However, for the companies in Spain, the board independence, and board size or CEO Chairman Duality did not show a significant impact on the valuation of the firms. (Toledo)

Non-executive directors

The ratio of number of Non-Executive Directors to Board Size determines the extent of external control on the functions carried out by the board.

The literature reviewed gives mixed evidence about the relationship between board composition and capital structure of the company.

Berger et al (1997) emphasized the fact that stronger monitoring by outside directors has positive relationship with leverage. The companies with relatively more non-executive directors control the CEOs more closely which results in to adopting capital structure with more leverage. (Jensen M. C., 1986)

Abor and Biekpe (2007) accentuate the presence of positive relationship between gearing levels and board composition. Ghanaian SMEs that have more outside directors and a diversified set of skills at board found to have higher level of gearing. Abor (2007) observes the similar relationship for Ghanaian listed firms. He emphasizes that Ghanaian listed firms with larger board size, higher percentage of non-executive directors pursue high debt policy.

Sheikh & Wang (2012) highlight the positive relationship between proportion of outside directors with the total debt ratio and the long-term debt ratio.

The negative relationship between board composition and leverage was witnessed by some of the researchers.

Wen (2002) confirms the existence of significantly negative relationship between gearing level and representation of non-executive directors on the board.

Hasan & Butt (2009) observes insignificant but negative relationship between board composition and shareholding. He argues that concentration of ownership leads to reduce the presence of non-executive directors on boards. This results in establishment of stronger control on firms. This phenomenon is common in family owned companies which dominate the Pakistani equity market.

CEO/Chair duality and capital structure

Another important feature of modern corporate governance is CEO/Chair duality. CEO is the decision management authority, whereas Chairman is decision control authority. If CEO is the Chairman of the company, the decision making and execution gets rigid and there is limited scope for flexibility, adaptability and participative decision making. The corporate management where the CEO also serves as chairman of the board suffers from inflexibility and has a direct impact on the financing decision of the company.

It is argued that in a firm, decision management and decision control functions should be separate. Decision management function comprises of initiation and implementation while decision control function comprises of ratification and monitoring. . This separation is ensured through a set of internal checks and internal controls. This system facilitates the judicious utilization of firm's resources. Therefore the same system should be implemented at the premier level. The role of chief decision management authority (CEO) should also be separated from role of chief decision control authority (Chairman). Board of directors is the seat of premier level of decision control mechanism in the corporate structure so it must not be controlled by CEO. If CEO is working as Chairman of the company, there is no separation of decision management and decision control and it ultimately leads to agency problems. (Fama & Jensen, 1983)

Very few authors support the positive and significant relationship between CEO/ Chair duality and capital structure decisions. Many of the researchers however conclude the insignificant relationship between the two variables.

Abor (2007) observes significant and positive associations between capital structure and CEO duality. The positive relationship between high debt policy and CEO duality is apparent in Ghanaian listed firms. Abor and Biekpe (2007) also provide evidence about the presence of positive relationship between gearing levels and CEO duality.

A weak and statistically insignificant relationship between CEO duality and capital structure was observed by (Fosberg, 2004). An insignificant relationship of CEO/Chair Duality with capital structure is observed by Hasan & Butt (2009) for the listed firms in Pakistan. It is commented that in Pakistan non- executive directors are not independent in true sense. However correlation analysis suggests that CEO/ Chair Duality and manager ownership are negatively correlated with profitability. (Hasan & Butt, 2009). This insignificant relationship is highlighted by one more study of Pakistani firms carried out in 2012. (Sheikh & Wang, 2012)

The insignificance observed by researchers suggests that the separation of two functions does not really affect the capital structure choice by the firm.

Purpose and objective of the study

The capital structure decisions are governed by the traditional firm level factors as well as the qualitative factors describing the quality of corporate governance. The objective of this study is to study the relationship between important corporate governance criteria and capital structure of the company.

Target population

The target population for this study was limited to the pharmaceutical companies listed on two major stock exchanges in India viz. Bombay Stock Exchange (BSE) and/or Na-

INSTITUTIONS PREFER TO INVEST FUNDS IN COMPANIES WITH STRONG FINANCIALS AND HIGHER MARKET SHARE AND THROUGH THEIR HOLDING ARE FOUND TO BE CONTROLLING THE DEBTS OF COMPANIES

tional Stock Exchange (NSE) and did not cover any pharmaceutical company that is not listed. Availability and accuracy of data was a key concern and the researcher believed that the probability of collection of such data was very low in case of companies that are not listed.

Reference period

As part of globalization programme, India has become a signatory of the GATT (known as World Trade Organization (WTO) since 1995) and hence a signatory to the TRIPS (Trade Related aspects of Intellectual Property Rights). After the amendments made to Patents Act in 2005, and with the advent of Pharmaceutical Policy, 2002, it has, now, become inevitable for the companies to spend more on research and development. The pharmaceutical companies were expected to invest more in research and development with the advent of TRIPs regime from the year 2005. The investments in research and development require huge funds and have a longer gestation period. The researchers thought it appropriate to study the sources of funds used by pharmaceutical companies and the qualitative factors affecting capital structure decisions. Therefore the relationship between corporate governance criteria and capital structure from the year 2005-06 onwards is studied in this paper. The period of seven years from 2005-06 to 2011-12 has been taken as a reference period.

Source of data, population and sampling technique

The data of Indian Pharmaceutical companies were obtained from the Prowess database[3] developed by CMIE.[4] The financial data of 192 Indian pharmaceutical companies from financial year 2005-06 to 2011-12, listed either on BSE or NSC or both are considered in our study (population). Total of net sales for the period under study was used as selection criteria. Out of the 192 companies, first ten companies were selected. The total of average net sales of these companies for the period of 7 years was more than 47% of the total of average net sales of all 192 companies. The companies included in the sample are, Aurobindo Pharma Ltd., Cadila Healthcare Ltd., Cipla Ltd., Dr. Reddy'S Laboratories Ltd., Glaxosmithkline Pharmaceuticals Ltd., Lupin Ltd., Piramal Enterprises Ltd., Ranbaxy Laboratories Ltd., Sun Pharmaceutical Industries Ltd. and Wockhardt Ltd.

Variables

Independent variables

The literature review revealed that the relationship between CEO-Chair duality and capital structure is insignificant. The researchers therefore have not considered this as one of the variables. The details of managerial ownership were not available in the database. Hence the variable 'managerial ownership' is also not considered in the present study. Based on the literature review, the researchers decided to use following variables for describing the quality of corporate governance.

1. Institutional Holding

This represents the proportion of shares held by the non-promoter institutions. The proportion of shares held by institutions increases with the improvement in the quality of corporate governance (Chung & Zhang, 2011). The institutional holding expressed in percentage as on 31st March of each year is taken as an independent variable.

2. Promoters' Holding

SEBI describes promoter as the person(s) who are in control

[3] Prowess is a database of large and medium Indian firms. It contains detailed information on over 27,000 firms.

[4] The Centre for Monitoring Indian Economy (CMIE) is an independent economic think-tank headquartered in Mumbai, India. It provides information solutions in the form of databases and research reports. CMIE has built the largest database on the Indian economy and companies.

Table 1: Descriptive Statistics

Variable	Maximum	Mean	Standard Deviation
Debt equity	1.26	.321957	.4183588
Institutional holding(%)	41.77	27.932714	8.5489532
Promoters' holding (%)	73.64	53.438429	14.7581943
Board size (log)	1.16	1.041215	.0880349
Proportion of Independent directors to total directors	0.62	.534029	.0779552

Table 2: Correlation coefficients

	Debt Equity	Institutional holding	Promoters' holding	Board size (log)	Proportion of Independent directors to total directors
Debt equity	1.00	-.652	.576	-.253	.206
Institutional holding	-.652	1.00	-.905	.577	-.213
Promoters' holding	.576	-.905	1.000	-.510	-.045
Board size (log)	-.253	.577	-.510	1.000	-.596
Proportion of Independent directors to total directors	.206	-.213	-.045	-.596	1.00

Table 3: Regression Model

Model		Unstandardized Coefficients	
		B	Std. Error
1	(Constant)	-3.186	5.837
	Institutional holding	-.022	.046
	Promoters holding	.012	.029
	log of number of directors	2.215	2.567
	Independent directors to total directors	2.187	2.955

of the company directly or indirectly, whether as shareholders, directors or otherwise or person(s) named as promoter in any offer document of the company. The Prowess database used by the researchers considers the promoters as the persons named as promoters by the company in the disclosure under the provisions of the Listing Agreement. The percentage of shares held by promoters as on 31st March of each year has been taken as one of the independent variables.

3. Board size

The total number of directors on board describes the size of the board. The board of directors is the highest body of a company and influences the crucial decisions like financing. The variable board size is measured as logarithm of the number of directors on board.

4. Proportion of Independent Directors to total number of Directors

The presence of independent directors on board increases the confidence of investors in the firm. Such companies are considered as more credit worthy and get an easy access to funds. The researchers have taken the proportion of Independent or Independent and Non- Executive directors to the total number of directors as an independent variable.

Dependent variable

1. Debt to Equity ratio

The ratio of long and medium term debt to equity is taken as a dependent variable. Short term debts are not considered while calculating debts. The capital consists of paid up equity capital, preference capital, capital contribution by Government and cash and free reserves.

THE RELATIONSHIP BETWEEN PROPORTION OF SHARES HELD BY INSTITUTIONS AND LEVERAGE IS NEGATIVE, SUGGESTING THAT FIRMS WHERE INSTITUTIONAL OWNERSHIP IS WEAK CARRY MORE DEBT

Proposition

We argue that the quality of corporate governance structure influences the capital structure decisions of Indian pharmaceutical companies. Our proposition led use to the following hypothesis.

H0: There is no significant effect of quality of corporate governance on the capital structure of the firm.

H1: There is a significant effect of quality of corporate governance on the capital structure of the firm.

Empirical Findings:

Before turning to more elaborate discussions and findings, we first present an overview of the descriptive statistics of the variables under study (Ref. **Table 1 & 2**).

Statistical Test

For each company, the variables under study were calculated. The average of these variables for each company was computed and the appropriate tests were carried out. The researchers used multiple regression analysis to test the significance of the effect of quality of corporate governance on capital structure. We used the software, 'IBM SPSS Statistics 20' to analyse the data. The results of multiple regression analysis are discussed below.

Interpretation

The correlation analysis indicates the negative but significant relationship between institutional ownership and debt equity ratio. This means that higher the proportion of shares held by institutional investors less is the leverage.

The promoters' holding is observed to be positively correlated with debt equity ratio. Higher the proportion of shares held by promoters, higher is the leverage. This observation is consistent with the concept of trading on equity. The promoters, who are the controllers, try to maximize their profits by using debts.

The proportion of Independent directors does not show any significant relationship with leverage.

The size of board was found to be negatively correlated with debt equity ratio but this relationship was insignificant.

To support the interpretations based on correlation analysis, the results of multivariate regression analysis are presented below (Ref. **Table 3**).

The regression equation is,

Debt -Equity = -3.186 - 0.022(Institutional %) + 0.012 (Promoters' %) + 2.215 (Log Board Size) + 2.187 (Independent / Total directors)

The relationship between institutional holding, promoters' holding and proportion of independent directors with the debt equity ratio is consistent with the results of correlation analysis.

The variable board size, which is one of the independent variables, shows a negative correlation with dependent variable, debt equity ratio (Table 2) but has a statistically significant beta weight (2.215). The board size has an insignificant correlation coefficient with dependent variable

(-0.253) but has a significant correlation coefficient with other predictors. (Refer Table 2). Such a variable is called as a 'suppressor variable.' Suppressor variables should be retained as they increase the predictive power of the regression model. (Pandey & Elliot, 2010)

Conclusion

The study reveals the relationship between corporate governance and capital structure of select Indian pharmaceutical companies for the period 2006 to 2012.

The relationship between proportion of shares held by institutions and leverage is negative, suggesting that firms where institutional ownership is weak carry more debt. The higher proportion of institutional holding controls the proportion of debt financing thereby resulting in to protection of shareholders' interests. The average proportion of institutional holding for select top ten pharmaceutical companies is 27.93% which is reasonably high and the highest proportion is 41.77%. It is obvious that the institutions prefer to invest their funds in companies with strong financials and higher market share. The institutions through their holding are found to be controlling the debts of companies.

The proportion of shares held by promoters depicted the average holding of 53.44% with the maximum of as high as 73.64%. This indicates the higher stakes of large controlling groups in the companies. The controlling groups try to maximise their gains by maximising use of debts. Therefore the relationship of promoters' holding with leverage was found to be positive and significant.

The proportion of independent and non-executive independent directors to total directors was found to be insignificant in taking capital structure decisions. This weak relationship may be due to lack of 'independence' in real sense.

The size of board, as explained earlier is a suppressed variable, the presence of which is important as it affects the other predictors significantly and thus contributes to the model.

Thus it can be concluded that the quality of corporate governance has implications on capital structure decisions of Indian pharmaceutical companies.

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THE PRESENT ENVIRONMENTAL CRISIS: A HOLISTIC PERSPECTIVE

As globalisation spreads the American Dream of unending material prosperity to other nations, it has ominous implications for environment and a lasting solution to the problem lies in the evolutionary approach

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There is at present a growing and voluminous literature on the ecological and environmental crisis facing humanity today. The contemporary, professional, whatever may be her field of specialisation, must have a clear grasp of the crisis. But she is too busy to go through all these literature on environment. The main objective of this article is to fulfill this need of the modern professional. This article presents a brief and holistic perspective on the great crisis facing humanity today indicating in the end a triune solution, which will be discussed in detail in subsequent articles.

The Four Challenges

The ecological crisis facing humanity today is made of four factors or challenges: Economic Growth, Energy, Population and Life-style.

Powering economic growth

The economic growth is a legitimate need for the poorer sections of humanity. But for the rich nations, continued economic growth, at the present rate, is an unjustifiable and ecologically unviable greed. However, whether it is driven by the Need of the poor or Greed of the rich, the economic engine consumes energy and resources which are limited and emits wastes which are harmful to the environment. And the problem assumes alarming proportions when the quantity of energy-and-resource-consuming and polluting population grows and doubles by the twenty-first century. As a UN study on the energy requirement of the millennium describes the magnitude of the problem.

Acoording to the Past President, The Institute of Company Secretaries of India

"The task of making energy available to the bulk of the people in the developing countries at prices they can cope with is certainly large. Still bigger is the task of providing clean energy to the developing countries as well as the industrialized nations and the countries of Central and Eastern Europe. And when we think that the world population is expected to double by the end of the twenty-first century, the task at hand for the people of the world is certainly such that many wonder how it can be met"[1].

Renewable and green energy like the solar are not yet commercially competitive with conventional fuels like coal and oil. Until this happens, we have to depend mainly on non-renewable energy resources which will pollute the environment. Other green initiatives like emission control and more efficient utilisation of fuels are not likely to have any substantial impact on the environmental situation as long as toxin-emitting transportation like cars or planes increases in quantity, volume and intensity every year with rapid economic growth. As environmentalist Wolfgang Sachs of Wuppertal Institute for Climate, Energy and Environment in Germany, points out:

"Let me take a simple example. It is obvious in the last 20 years, the fuel efficiency of cars have grown enormously. Nevertheless the problem of cars is far from being solved. Because while efficiency grew, the number of cars and the power of cars also grew and kilometers traveled have increased. We achieve efficiency but, at the same time the gains achieved have been eaten up by continuous growth"[2].

The dilemma of population

The other great environmental problem is population growth. However the adverse impact of population growth on the environment is not of the same degree or magnitude in the poor and rich nations because the percapita consumption of energy and resources, and also percapita pollution, is much greater among the rich nation than in the poorer nations. In other words, percapita damage done to environment is much greater by the rich than by the poor which means the rich nations are much more responsible for the present ecological condition of our planet than the poorer countries. According to environmentalist George Monbiot, the greatest environmental problem of the present century will be neither poverty nor population but the economic growth driven by the greed of the rich or in other words over consumptions of finite resources by the unsustainable life-style of the rich. The human population on earth, according to a UN study, may rise roughly by 50% and get stabilized at 10 billion by 2200. But a research study by the Imperial College in UK has found that if the present trend of economic growth by three percent every year, especially in rich countries, continues, then global consumption of resources will increase by 1600 percent by 2100. This means as Monbiot concludes: "As the resources are finite---it is not hard to see the raising economic activity is the immediate and overwhelming threat."[3]

The consumptive lifestyle

So, as the rich nations cling to their over consumptive and greedy life-style of multiplying wants, and the poorer nations aspire for and achieve a similar life-style, consuming energy and resources and polluting the environment on the same scale as the rich, environmental threat assumes nightmarish proportions. As we mentioned earlier, at present rich nations inflict greater damage to the environment than poorer nations. A recent study conducted by National Geographic Society places Indians, Chinese and Brazilians at the top of the list of eco-friendly consumers, with Americans coming at the bottom of the list. But the situation may change as the economic growth in these developing nations accelerates at a fast pace in the same patterns as the rich nations.

Here comes the disturbing element in the emerging fast-growing economies like India and China. As the increasing middle class population in the developing economies like India and China follow the western type of consumption, buy more cars, travel more and get more and more globalised, it poses a serious threat to their environment. For example, in China some thirty thousand new cars were being added to the roads in Beijing, every month. And the environmentalists in China are very much worried. Pan Yue, the country's deputy environmental minister told a German magazine that the country's economic miracle "will end soon because the environment can no longer keep pace. Five of the most polluted cities worldwide are in China; acid rain is falling in one third of our territory; half of the water in China's largest rivers are completely useless".[4] So as globalisation spreads the American Dream of unending material prosperity to other nations, it has ominous implications for environment. As the American journalist, Milton Friedman states:

"The Great Chinese Dream, like the Great Indian Dream, the Great Russian Dream and the Great American Dream is built around a high-energy, high electricity, high-bent-metal life-style. To put it in another way, the thirty thousand new cars a month in Beijing and the cloud of haze that envelops the city on so many days,--all testify to the environmental destruction that could arise---if clean alternative renewable energies are not developed soon"[5.]

Globalisation adds one more twist to the problem. The process of globalisation involves outsourcing of corporate functions, like for example, a product may be designed in India, manufactured in China and assembled in America. This process increases the transportation intensity of the product. As the environmentalist Wolfgang Sachs explains, the transportation intensity of a container of Yogurt in Germany, which is made of strawberries from Poland, colour from Holland, plastic container from somewhere else, is 9000km! And increase of transportation, when it is powered by fossil fuels like diesel or petrol, adds to the environmentally destructive carbon in the atmosphere.

The Triune Solution

So, as an African diplomat said, has the American dream become the world's nightmare? Is there a remedy? The problem has to be tackled in many fronts. The remedy may be broadly classified into three categories: first is the institutional intervention through environmental education, law, regulation, green activism, work of NGOs, balancing ecology with economics and poverty eradication; second is the technological solution through green energy and green technologies; third is the cultural and evolutionary solution through growth in consciousness. These three solutions are not mutually exclusive but can be pursued simultaneously. However, in the integral perspective, a lasting solution to the problem lies in the evolutionary approach. We will discuss these solutions in greater detail in our subsequent articles.

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DIRECT TAXES

Case Laws

- **No I-T exemption on let out portion of palace as it won't be deemed to be in occupation of Ruler under section 10(*19A*) -** As long as the Ruler continues to occupy the palace, whether by actually utilizing it or by keeping it vacant, it shall be for the purpose of section 10(*19A*) deemed to be in his occupation. He, however, would disentitle himself to the exemption from tax on the annual value of that part of the palace which is let out to a tenant – *CIT* v. *Maharao Bhim Singh of Kota* [2014] 45 taxmann.com 350 (Rajasthan)

- **Family pension received from UK based bank falls under residuary Article 23 of India-UK DTAA - taxable in UK only -** Where the assessee received family pension from the employer of the deceased wife *i.e.*, from RBS, UK and the source country *i.e.* UK also deducted tax thereon at source , said income cannot be taxed for a second time in India – *ACIT* v. *Karan Thapar* [2014] 46 taxmann.com 46 (Delhi - Trib.)

- **Forced staying period in India on impounding of passport is excludible to determine residential status in India -** In order to determine residential status of assessee in India during relevant assessment years, number of days of his forced stay due to untenable impounding of assessee's passport was to be excluded while computing days of his stay in India - *Suresh Nanda* v. *ACIT* [2014] 45 taxmann.com 269 (Delhi - Trib.)

- **Section 54F stipulates deposit of unutilized sum within due date specified under section 139(1) and not under section 139(4) -** 'Due date' mentioned under section 54F is due date for filing return under section 139(1) and not under section 139(4) - *ITO* v. *Smt. Rosamma Korah* [2014] 45 taxmann.com 153 (Cochin - Trib.)

- **Proviso to section 40(*a*)(*ia*) allowing deduction for exp. even after TDS default in tax neutral cases has retro-effect -** Second proviso to sec. 40(*a*)(*ia*) is effective retrospectively even if it was inserted by Finance Act, 2012 prospectively from April 1, 2013 - *Rajeev Kumar Agarwal* v. *ACIT* [2014] 45 taxmann.com 555 (Agra - Trib.)

- **Section 54F doesn't stipulate approval from Municipal Corporation for construction of residential house; says ITAT -** Provisions of section 54F mandate construction of a residential house, within period specified, however, there is no condition that building plan of residential house should be approved by Municipal Corporation or any other competent authority - *B. Sivasubramanian* v. *ITO* [2014] 45 taxmann.com 74 (Chennai - Trib.)

Statutes

- **Govt. notifies '1024' as Cost Inflation Index for Financial Year 2014-15 -** NOTIFICATION NO. 31/2014 [F. NO. 142/3/2014-TPL]/SO 1498(E), DATED 11-6-2014

- **CBDT gives option to individuals to show mother's name on PAN card; notifies revised forms 49A and 49AA -** The CBDT introduced new Forms 49A and 49AA for filing an application for a Permanent Account Number ('PAN'). In the old forms, individual applicants could have his/her father's name on the PAN card. In new Forms, an applicant can either select the name of mother or father, which he would like to have on the PAN card. In case no option is provided then card will be issued in the name of father - [NOTIFICATION NO. 26/2014 [F.NO.142/15/2013-TPL]/SO 1297(E), DATED 16-5-2014]

- **Details of assets reported in wealth-tax returns by loan defaulter to be shared by I-T Deptt. with PSU Banks -** Every wealth-tax return filed by an assessee is subject to assessment under the Wealth-tax Act ('the W-T Act'). The information provided in the return can be furnished to Public Sector Banks (PSBs), provided that the Chief Commissioner or Commissioner is satisfied that supply of such information would be in public interest.

  The CBDT in this context has clarified that sharing of information about the assets of loan defaulters to enable PSBs to recover outstanding loans would be in public interest. At the time of supply of such information a confidentiality clause may be included specifying that such information should be used only for the purpose of recovery of loan and will not be shared with any other person/agency.

  To ensure that the right of the Department against the defaulter, if any, to collect the tax dues are safeguarded, the PSBs are required to obtain a NOC from the jurisdictional CIT - [Letter No. F. No. 328/10/2014 – WT, dated 28-5-2014.]

INDIRECT TAXES

Case Laws

- **Waste/Scrap is a final product; hence, even if main final product is exempt, manufacturer is entitled to credit of proportionate inputs which generated such waste/scrap, if such waste/scrap is liable to duty –** *CCE* v. *Albert David Ltd.* [2014] 44 taxmann.com 454 (SC)

- **Section 87 of Finance Act, 1994 provides for recovery of amount due and payable after adjudication is done and there is no power in section 87(*b*) to freeze bank accounts; at most, money can be claimed from bank itself after final adjudication -** *R.V. Man Power Solution* v. *CCE* [2014] 45 taxmann.com 215 (Uttarakhand)

- **Since delivery of sample test report to foreign client is an essential part of testing services, said service must be treated as consumed abroad and not liable to service tax, even if testing is done in India and report is prepared in India –** *CST* v. *SGS India (P.) Ltd.* [2014] 45 taxmann.com 188 (Bombay)

- **Temporary transfer of copyright in films doesn't amount to 'sale'; levy of service tax on it is constitutionally valid -** *AGS Entertainment (P.) Ltd.* v. *Union of India* [2014] 46 taxmann.com 92 (Madras)

- **Amendment in rule 14 of CENVAT Credit Rules, 2004 substituting word "and" for word "or" is clarificatory; therefore, no interest and penalty can be levied if credit is merely taken and not utilized and is reversed before utilization –** *CCE* v. *Strategic Engineering (P.) Ltd.* [2014] 45 taxmann.com 541 (Madras)

- **In case of restaurants, since element of service has been declared under Service tax laws and brought under Service Tax (*i.e.* 40% of bill amount to customers in restaurant), no Value Added Tax can be imposed on 40% of bill -** *Valley Hotel & Resorts* v. *CCT* [2014] 45 taxmann.com 377 (Uttarakhand)

- **VAT is leviable on amount collected by medical colleges and hospitals from sale of prospectus and application forms -** *Manipal University* v. *State of Karnataka* [2014] 45 taxmann.com 6 (Karnataka)

SUBSCRIPTION OF "RESEARCH BULLETIN"

Directorate of Research, Innovation & Journal of the Institute publishes the biannual Research Bulletin [ISSN 2230 9241] since 1982. We publish both theme based and non theme based articles on the blazing issues. Our Research Bulletin mainly emphasizes on empirical articles pertinent to MSMEs, Banking, Corporate Governance, Corporate Social Responsibility, Securities Market, Agriculture, Infrastructure, Sustainability, Foreign Direct Investment, etc. The following publications are presently available for sale:

- Research Bulletin, Volume-36, October, 2012.
- Research Bulletin, Volume-37, June, 2013.
- Research Bulletin, Volume-38, December, 2013.
- Research Bulletin, Volume-39, June, 2014.

HOW TO SUBSCRIBE

- Subscription Rate is Rs. 250 per volume.
- The subscribers can pay the amount by way of draft favouring "The Institute of Cost Accountants of India" payable in Kolkata.
- Please send the draft with a forwarding letter, stating the full delivery address as well as the name, contact nos. and the email id of the person concerned.

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ROUND TABLE DISCUSSION ON GOVERNMENT ACCOUNTING AND ROLE OF CMAS

The Directorate of Research, Innovation and Journal of the Institute had organized a Round Table Discussion on 'Government Accounting and Role of CMAs' at the EIRC Auditorium on June 16, 2014. Shri Arabinda Das, Principal Director, Regional Training Institute, Indian Audit and Accounts Department, Shri Amit Sarkar, Joint Director of Treasury and Accounts, West Bengal, Shri Sukamal Adhikary, Senior Officer, Office of PAG, Shri Arup Kumar Maity, Municipal Accounts and Financial Expert, DLB were among the dignitaries who attended the seminar and shared their valuable opinions on the concerned theme. CMA Manas Kumar Thakur, Chairman, Research, Innovation and Journal Committee, CMA Dr. Debaprosanna Nandy, Director, Research and Journal also deliberated in brief about the Government Accounting and said that the CMAs have a huge and significant role to play in this field. Shri Sukamal Adhikary emphasized on the importance of the Costing system in the Government accounting which according to him needs to be properly addressed. He said that there are various possibilities for improvement in the respective area. He asserted the fact that many Government organizations do not mention their actual position of assets and only prepare Receipts and Payments Account which is not worth mentioning. He insisted both on the accounting and costing format and also he opined that the CMAs bear a huge role and responsibilities in this regard. Shri Arabinda Das gave a brief overview of Government Accounts, the Government Accounting Process and System viz. Consolidated Fund, Contingency Fund, Public Accounts, role of State DDO, Central DDO etc. He also explained the valuable distinction between Government Accounting and Financial Reporting, GAP Analysis of government accounting based on accounting Standard, GASAB Formation, Ethics in Government Accounts. He further stated that there is ample scope and responsibilities of CMAs to play

with in this particular sphere. Shri Arup Kumar Maity also shared his views on the Government Accounting. Shri Amit Sarkar deliberated in details on the said topic and said that with the GASAB Formation there is a remarkable trend towards the conversion from cash basis to accrual basis of accounting in the Government Accounting. He further mentioned that there are certain constraints and the Government cannot perform anything which is ultra vires the constitution. He stated Government Accounting is moving towards an evolutionary stage like implementation of the Integrated Financial Management System, Shifting to E-Payment System, etc and the Government needs professionals like CMAs to cope with the changing situation. Many eminent dignitaries were present in the seminar and resolved their queries. CMA Dr. Sumita Chakraborty, Joint Director, Research ended the programme with a vote of thanks.

Eastern India Regional Council

Bhubaneswar Chapter of Cost Accountants:

THE Chapter conducted the 52nd session of Oral Coaching Chapter on June 8, 2014 where CMA Akhaya Kumar Swain, Chairman, Coaching Committee delivered his welcome address. The session started with lighting of the sacred lamp by senior faculty members in the presence of Chairman and other members of the Managing Committee. Certain facilities apart from the course curriculum had been provided to the students by the Chairman of the Chapter. On the same day, a meeting held by all the esteemed faculties and members of the Managing Committee to discuss on various coaching and student developmental activities. CMA Akhaya Kumar Swain, Chairman, Coaching Committee provided assurance to the faculties for provision of required facilities as suggested on the purview of the guidelines of the Institute. There were active participation of many faculties and CMA Manas Ranjan Lenka, Chairman of the Chapter proposed the vote of thanks.

Rourkela Chapter of Cost Accountants

ON April 27, 2014 the Chapter organized a seminar on the theme 'Generations of Management-where are we now'. Dr. K.C. Mishra, Vice-Chancellor of Sri Sri University, Odisha was the Chief Speaker who briefly discussed about the various generations of management and their relevance in the present context and also gave a brief outline on the influence of technology on management. Shri G. S. Prasad, CEO, RSP being the Chief Guest of the seminar said that the finance managers would have to think of new ideas and ways for improvement of the bottom-line of the company and to achieve the success of the organization. CMA S. Pradhan, GM (F&A), RSP and Chairman of the Chapter graced the occasion and delivered the welcome address. CMA G.S. Das, AGM (F&A) and member of the Chapter coordinated the programme and CMA Amar Kumar Mohanty, AGM (F&A) and Secretary of the Chapter proposed a formal vote of thanks.

Northern India Regional Council

Udaipur Chapter of Cost Accountants

ON April 27, 2014 the Chapter organized Members Meet where discussions were made regarding professional avenues awarded by the Government by different laws, steps to be taken for professional development, and growth of the Chapter. CMA Y.L. Jain Chairman of the Chapter discussed in detail about the Chapter's activities. CMA Rakesh Bhalla, Chairman, NIRC delivered his motivational speech on the different fields and avenues for the Cost and Management Accountants in practice. He also briefly explained the role of Cost and Management Accountants in the area of Cost Audit, Finance, Taxation, Internal audit and in the areas of Mining, Infrastructure, ports, steel, coal and relevant other fields. Shri S. K Bhatt discussed in details the new avenues available for the CMAs. He further opined that the CMAs must not bind their activities to Cost Audit only. The meeting ended with vote of thanks by CMA N.K. Soni, Secretary of the Chapter.

Southern India Regional Council

Nellore Chapter of Cost Accountants

THE Chapter celebrated the Foundation Day of the Institute on May 19, 2014. CMA Ch. Venkateswarlu Secretary, SIRC, addressed the members about its importance and CMA Y Srinivasa Rao, Chairman of the Chapter, explained the role of the Cost and Management Accountants in the global perspective. Both of them introduced new foundation objective material prepared by the Chapter for the benefits of the students. CMA C.V. Nagalakshmi, Vice Chairperson, of the Chapter delivered his vote of thanks.

Coimbatore Chapter of Cost Accountants

ON May 21, 2014 a PDP meeting on the topic 'Overview of Companies Act, 2013' had been conducted by CMA P. Raju Iyer, Chairman, SIRC, where he covered the relevant sections of the CMA profession.

Chairman CMA A.R. Ramasubramania Raja and Secretary CMA A. Harihara Subramanian honouring CMA P. Raju Iyer, Chairman, SIRC, Chennai at the PDP meeting on 21st May, 2014.

Hyderabad Chapter of Cost Accountants

ON May 19, 2014 the Chapter conducted the celebration of the Foundation Day of the Institute. CMA B.L. Kumar, Chairman, CMA S. Nagendra Kumar, Treasurer, CMA B.V. Ramana Murty, Past President of the Institute, CMA P.A.P. Murthy, CMA A.V.N.S. Nageswar Rao, CMA K.Ch.A.V.S.N. Murthy, Past Chairmen SIRC and other fifty members participated on the said occasion. CMA BV Ramana Murty and other senior members stated in brief about the growth of the Institute and Chapter. The celebrations concluded with National Anthem.

Tiruchirapalli Chapter of Cost Accountants

ON June 8, 2014 the Chapter organized a one day workshop on 'The Companies Act 2013'. CA Gopal Krishna Raju, practising Chartered Accountant from Chennai was the resource person. He delivered a detailed presentation on the salient features of Companies Act 2013. He also emphasized the new concepts 'One person Company', 'Small Company', 'Associate Company' and 'Dormant Company' and explained the relevant provisions as to its constitution. CMA P. Raju Iyer, Chairman of SIRC introduced the Chief Guest and CMA J. Murugesan, member, SIRC highlighted the importance of new Companies Act 2013.

Ranipet Chapter of Cost Accountants

THE Chapter on May 19, 2014, the foundation day of the Institute printed five thousand EB Card with the detailed admission procedure of the Institute and made it distributable to the customer around the Chapter at EB office through billing counter approved by concerned Assistant Engineers. The event has acted as a good promotional tool for the chapter.

Erode Chapter of Cost Accountants

THE Chapter was inaugurated on May 19, 2014 with lighting of the lamp by Dr. K Kumaresan, Principal, Minerva College. CMA H Padmanabhan, Vice Chairman, SIRC, CMA Kanchana, CMA Senthil Kumar, CMA R Gopal and CMA J Murugesan, RCM SIRC were among the members who were present in the occasion.

Cochin Chapter of Cost Accountants

THE Chapter arranged a felicitation programme on March 5, 2014 to felicitate the students who cleared both groups in a single attempt in the December 2013 examination. The Managing Committee members, faculties and the students attended the programme. From March 6 till 9, 2014 the Chapter conducted i-CMAT Training for Final students at its premises. Federation of Indian Chambers of Commerce (FICCI) organized a seminar on the theme 'Companies Act 2013 – Enhanced Compliance and Implementation of CSR' on March 22, 2014, the Chapter being one of the knowledge partners of the seminar. Shri Savio Mathew, the Head, FICCI-Kerala Council welcomed the inaugural session and CS Sivakumar P, Chairman, Kochi Chapter of ICSI and CMA Santhosh Kumar, Chairman of the Chapter introduced the Chief Guest Shri Joseph Jackson, the Registrar of Companies, Kerala & Guest Speakers, Shri.G.P. Madaan, CEO, Corporate Knowledge Foundation, New Delhi & Shri. N.K. Jain, Corporate Advisor and former Secretary & CEO of the ICSI. CS Jayan K., Past Chairman, Kochi Chapter of the ICSI expressed the vote of thanks and ended the seminar. On March 26, 2014 the Chapter along with CAT-ASAP arranged a one day training to post graduate teachers. The function was inaugurated by CMA Amit Apte, Chairman, CAT and Central Council Member. Shri. Madhusudhanan C., ASAP - Quality Division, Govt. of Kerala and CMA T C A Srinivasa Prasad, Central Council Member, addressed the gathering. CMA H. Padmanabhan, Vice Chairman, SIRC presided over the function and CMA Santhosh Kumar V., Chairman of Chapter welcomed the gathering.

Western India Regional Council

Indore Chapter of Cost Accountants

ON May 5 & 6, 2014, the Chapter organized two-day CEP programme on 'Advance Excel Automation through VBA'. Shri Alok Joshi, Business Analyst of Novartis Healthcare Pvt. Ltd. was the resource person for the seminar. CMA Dr. Niranjan Shastri, Treasurer & Ex Chairman of the Chapter highlighted the theme of the seminar. CMA Vijay P. Joshi, Secretary, WIRC was present in seminar and CMA Shailendra Jain delivered vote of thanks.

Ahmedabad Chapter of Cost Accountants

THE Chapter organized campus interviews on May 9 and 10, 2014 for qualified CMAs of the December Final Examination, 2013. Many reputed organizations participated in the said programme. On May 24, 2014 the Chapter organized a seminar on the theme 'The Companies Act – 2013, Impact on Professionals'. The Chief Guest Shri S K Agarwal, Regional Director of North-Western Region, Ministry of Corporate Affairs Government of India graced the seminar and gave a brief background of the Companies Act 2013. The Technical session was followed by speakers CS Umed Ved CCM - ICSI, CMA M C Gupta, CS Manoj Hurkat & CMA A. G. Dalwadi member of the Institute. They discussed on the overview of Companies Act 2013 giving major highlights and relevant changes provided in the act. CMA R B Kothari, Chairman of the Chapter presided over the seminar and CMA Ashish Bhavsar, Secretary of the Chapter proposed vote of thanks.

Pimpri-Chinchwad-Akurdi Chapter of Cost Accountants

The Chapter organized a CEP seminar on 'Key aspects of Project Accounting - Construction Contracts under AS 7' on May 19, 2014 at its office. CMA Satish Thombre, General Manager, Finance, Thermax Ltd was the guest speaker and he covered various aspects of Project accounting, key issues in project accounting, cost and progress review process, accounting checks carried out as part of book close process etc. After the technical session, CMA Mahindra Bhombe, Jt. Secretary of the Chapter delivered his vote of thanks.

Jabalpur Chapter of Cost Accountants

THE Chapter organized a student's felicitation programme on May 8, 2014. The students were given certificates on successfully completing the Final Examination of ICAI. Chairman of the Chapter, CMA Anil Kumar Gupta and Secretary CMA Tapan Badkul guided how to face the challenges ahead in front of the students. CMA Madhu Agrawal, Vice Chairman of the Chapter coordinated the program & organized number of games for the students & members. CMA Harbaksh Moolchandani, Treasurer of the Chapter delivered his vote of thanks.

KIND ATTENTION!

Members are hereby requested to intimate the Transaction ID, Date of payment, amount deposited and membership number to membership@icmai.in and finance.arijit@icmai.in for membership fee payments made through Bank by NEFT.

In case of payments made directly by organizations to the Institute's bankers on behalf of the members, the details of the same may also be intimated to the above mentioned mail IDs as soon as the payment is made by the organization concerned.

NON-RECEIPT OF THE MANAGEMENT ACCOUNTANT JOURNAL

This is for the information of members who fail to receive the management accountant journal despatched to them either due to un-intimated change of address or postal problems. Such addresses of the members whose journals have been returned undelivered are regularly hosted on the website of the institute (www.Icmai.In) under the 'journal' section.

Please inform the membership department immediately any address update to ensure regular and timely delivery of journals to you. Members can also update their addresses online in the 'members' section. The new address gets automatically updated in the centralized data base of the institute, from where the journal mailing list is prepared. Any queries or complaints in this regard can also be sent by email at **journal@icmai.In.**

The Institute of Cost Accountants of India

(Statutory Body under an Act of Parliament)

CLARIFICATION

Ref. No: BOS/01-04/14-15

Dated: Kolkata, 1st April,2014

Clarification on applicability of Finance Act, 2013 and CAR 2011, CARR 2011 and CASs for CMA Examinations

It is clarified for general information of all concerned that:

(A) Finance Act, 2013 shall be made applicable involving Assessment Year 2014-15 for the following papers in June 2014 and December 2014 terms of Examinations of the Institute:

Syllabus 2008	Syllabus 2012
Paper 7 - Applied Direct Taxation	Paper 7 - Direct Taxation
Paper 10 - Applied Indirect Taxation	Paper 11 - Indirect Taxation
Paper 14 - Indirect and Direct Tax Management	Paper 16 - Tax Management & Practice

This is also clarified in the Examination Notification issued by the Directorate of Examination of the Institute (http://icmai.in/examination/notification)

(B) Cost Accounting Record Rules 2011, Cost Audit Report Rules 2011 and Cost Accounting Standards - 1-17 will also be applicable for the following papers for June 2014 term of Examination:

Syllabus 2008	Syllabus 2012
Paper 17 - Cost Audit and Operational Audit	Paper 19 - Cost and Management Audit

(C) It is further clarified for general information that the provisions of "***The Companies Act,2013***" ***shall not be applicable for the CMA Intermediate and Final Course Examinations for June,2014 term of Examination. (Clarified vide*** BOS/01-08/13-14, on 26th August,2013 and reiterated vide **BOS/01-12/13-14 on 18th December, 2013). Applicability of provisions of The Companies Act,2013 for Examinations of the Institute would be notified in due course.**

All concerned are hereby requested to note this clarification and facilitate to make a proper and wide publicity to meet the concern of stakeholders on the stated subjects.

CMA Chiranjib Das
Joint Director, Head - Academics Department (Board of Studies)
Secretary to the Board of Studies Committee

ADMISSION ANNOUNCEMENT

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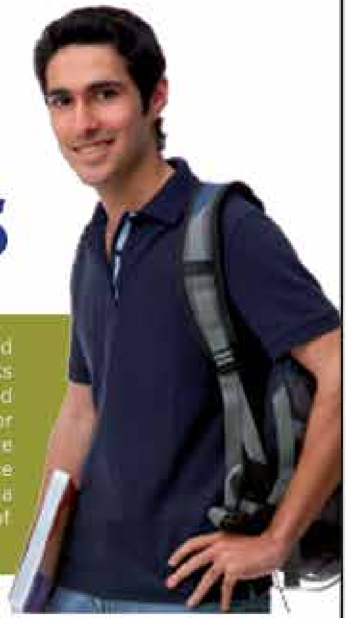
to Push Your Career and growth
Skywards



The Institute of Cost Accountants of India is a premier professional institute and a statutory body constituted under an Act of Parliament viz. the Cost and Works Accountants Act, 1959 to regulate and develop the profession of cost and management accountancy in the country. The Institute is at the forefront for grooming professionals to take up the challenges in the area of corporate decision making, management accounting, resource management, performance management, financial reporting and strategy, valuation management across a wide spectrum of industries in the manufacturing, services and other sectors of the economy.

Freedom to Pursue

- Employed persons can join and pursue the course simultaneously
- Can be pursued along with other full time studies
- Can be pursued through distance learning mode from anywhere in India
- Option for oral coaching through experienced faculties at four Regional Councils and selected Chapters across the country
- Option to write the examination in Hindi medium also
- An excellent record of campus placement
- Admission open throughout the year.

Eligibility

COURSE	FOR ADMISSION	FOR APPEARING IN EXAMINATION
Foundation	10th Pass	12th Pass
Intermediate	Foundation (pass) or Graduate (pass or appearing)	Foundation (pass) or Graduate (pass)

Fees Structure

Foundation Course		Intermediate Course		Final Course	
Postal Coaching	Oral Coaching	Tuition Fees for Postal Coaching (both groups)	Tuition Fees for Oral Coaching (both groups)	Tuition Fees for Postal Coaching (both groups)	Tuition Fees for Oral Coaching (both groups)
Rs. 4,000	Rs. 4,000	Rs. 16,000	Rs. 20,000	Rs. 12,000	Rs. 17,000

Practicing Areas for Cost Accountants

(A) Audit under different statues & authorizations

- Cost audit under Companies Act
- Special audit under Central Excise Act, Service Tax Rules and Customs Act
- Audit under Value Added Tax Act of State Government
- Due diligence audit mandated by Reserve Bank of India
- Internal audit mandated by SEBI & NSDL
- Stock audit concurrent audit of banks
- Internal audit of public sector enterprises

(B) Certification of various returns / forms prescribed by following ministries / departments of the Government of India

- Ministry of Commerce
- Ministry of Consumer Affairs, Food & Public Distribution
- Ministry of Corporate Affairs
- Ministry of Finance
- Ministry of Textiles
- Directorate General of Foreign Trade (DGFT)
- Fertilizer Industry Coordination Committee (FICC)
- National Pharmaceutical Pricing Authority (NPPA)

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You can also contact any of our chapters in almost a 100 cities all over the country.

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