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Social Audit

CMA Rakesh Singh, President, presenting bouquet to Smt. Sheila Dikshit, Hon'ble Chief Minister of the Government of NCT of Delhi on 7th August,2012. Seen (L to R) are CMA S.C. Mohanty, Vice President and CMA H.K. Goel, Council Member.

Smt. Sheila Dikshit, Hon'ble Chief Minister of the Government of NCT of Delhi seen with (L to R) CMA S.C. Mohanty, Vice President, CMA Rakesh Singh, President, CMA H.K. Goel, Council Member, CMA J.P. Singh, Addl. Secretary, Delhi office and CMA S.C. Gupta, Director, (Admn), Delhi office.

CMA S.C.Mohanty, Vice President, meeting Shri Baijayant Jaya Panda, Hon'ble Member of Parliament on 29.07.12 while CMA S.K.Sahu, Chairman, CBCCA and CMA S.P.Kar, Vice Chairman, CBCCA looks on.

CMA S.C. Mohanty, Vice-President presenting bouquet to Mr. H.R. Khan, Deputy Governor, Reserve Bank of India at Mumbai on 10th August 2012.

CMA S.C. Mohanty, Vice President in a discussion with Mr. H.R. Khan, Deputy Governor, Reserve Bank of India at Mumbai on 10th August 2012.

CMA Manas Kumar Thakur, Council Member, addressing the Scientists & Professors of Uttar Banga Krishi Vishwavidyalaya at a workshop on 'Project Cost Management' held at Coochbehar on 6.07.12.

CMA M. Gopalakrishnan, immediate past President addressing the faculties at SIRC.

CMA Rakesh Singh, President, addresses a Press Conference at Lucknow Chapter on 28.07.12. Also seen (L to R) CMA Vikas Srivastava, Secretary LCCA, CMA Seema Singh Vice Chairperson, CMA Sunil Singh, Chairman and CMA Shad Khan.

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The Management Accountant

Official Organ of the Institute of Cost Accountants of India established in year 1944 (Founder member of IFAC, SAFA and CAPA)

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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.

MISSION STATEMENT

"The Institute of Cost Accountants of India 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."

DISCLAIMER

The views expressed by the authors are personal and do not necessarily represent the views and should not be attributed to the Institute.

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Editorial

In my last editorial, I mentioned about the sagging economy and the need for some deft handling; nothing seems to have changed a wee bit as the lull in the economy continues with discernible steadiness even as another month passes by amidst assurance by the government that growth would pick up in the later half of the financial year and reforms such as FDI in key sectors such as insurance, retail, aviation would be introduced shortly. Added to this, is the rain worry which continues for the farmers and the common man as well affecting food grain production, as drought like conditions still persist in Maharshtra, North Karnataka and Saurashtra regions even though the south west monsoon has shown a strong revival narrowing down the overall deficiency in rains to around 15%.

Coming back to the topic at hand, the relationship between business and society has always been a subject of intense debate. During the 1970s the question of social responsibility of business, particularly of large corporations, has been the theme of wide academic interest. Milton Friedman, a Nobel laureate in Economics, had added much flavour to this debate. He opined that ''there is one and only one social responsibility of business - to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game''. Milton Friedman must have drawn support in favour of his argument from another great economist, Adam Smith, who is regarded as the prophet of the free market. Since Milton Friedman had expressed his opinions about the social responsibilities of business there has been a lot of change in the world. Today, even the most ardent followers of Adam Smith would not tow this line of argument. The argument now is decidedly tipped in favour of social responsibility of business.

In the last century business was used to be organised in small scales. Since the end of the last century, however, the emergence of large corporations has changed it all. Now, of the world's top 100 economic entities, 52 are corporations and remaining 48 are countries. The sales revenue of Microsoft or Wal-Mart is larger than the combined GDP of a few developing countries. With the irreversible march of globalization it seems that the concentration of economic power will only increase and more and more of the social functions - which were previously the provinces of the national governments - will be accorded to the big corporations of national and multinational origin. These organisations hold not only economic power, but they also enjoy huge political clout as well as social power.

There is, however, one important lesson to be taken from history in the present context. Society has always refused to allow permanent concentration of power in the hands of any one without commensurate responsibility. This should not be otherwise in the case of these large corporations. Business must lend itself to public scrutiny about what is happening behind the opaque walls of these business entities.

Social Audit, which is the theme of the present issue of the Management Accountant, is premised upon such an area of public accountability of business in our society. There is no unique definition of social audit. However, the term broadly refers to that area of corporate social performance that involves developing and using information about corporate activities of significance to the society and how these responsibilities have been carried out. It has a long history in the United States, and the United Kingdom in the 1970s; and to some extent in our country in the late 1980s.

I notice with immense pleasure that although social audit has lost much of its sheen with the emergence of CSR and triple bottom line reporting, we have received a good number of papers from the experts in the field. They have critically examined the various aspects of social audit to leave a trail of erudite discussion on the subject.

> **First say to yourself what you would be;**
> **and then do what you have to do.**
> **— Epictetus**

CMA Rakesh Singh, President

Dear Professional Colleagues,

In the current economic scenario the members of the Institute are required to emerge as true friends of the Consumers by correctly pricing the natural resources, product and services on one side and assisting the Regulators on the other. The responsibility cast upon the members of the institute is a challenging one and we are taking it as an opportunity to prove our worth to the society.

We are in process of putting our acts together in almost all the areas from administration, IT backbone, and infrastructure to make our institute emerge as a single unified network. The process is a challenging one and requires action plan and some retrospection of our practices. The time and demand from the regulators requires disciplined ethical practices and we are fully committed to this. I will continue to apprise on all such developments in coming days with greater details in order to get your guidance from time to time.

To apprise you of the progress in the profession, I briefly cover the recent developments in the Institute which have a bearing on the profession:

Meeting with Honourable Chief Minister, Government of NCT of Delhi

I am happy to inform that I along with CMA S.C. Mohanty, Vice-President, CMA Hari Kishan Goel, Council Member & officers of Delhi Office called on Smt. Sheila Dixit, Hon'ble Chief Minister, Government of NCT of Delhi on 7th August 2012. During the meeting, we apprised the Chief Minister about the role, the professionals of the Institute can play in the education sector. We also briefed the Chief Minister about the input provided by the Institute to the Committee constituted by Government of NCT of Delhi to review Delhi State Education Act, 1978.

Government directions relating to filing of Cost Audit Report

I would like to inform the members that the Ministry of Corporate Affairs vide its General Circular no. 18/2012 dated July 26, 2012 has extended date for filing of Cost Audit Report and Compliance Report in the eXtensible Business Reporting Language (XBRL) mode for the year 2011-2012 [including the overdue reports relating to any previous year(s)] with the Central Government, without any penalty, upto 31st December, 2012. The necessary circular has already been hosted on Institute's website.

Ministry of Corporate Affairs has also directed all companies to use the Product or Activity Groups as given in the Annexure to the notification no. S.O. 1747(E) dated 7th August, 2012 in respect of the Cost Audit Report and the Compliance Report to be filed with the Central Government. The necessary circular has already been hosted on Institute's website.

Independence Day Celebrations

I had the privilege to unfurl the National Flag on the occasion of 66th Independence Day on 15th August, 2012 at Kolkata Office of the Institute and also at the EIRC premises.

Recognition of Qualifications

In view of grant of exemption by the Institute of Chartered Accountants of India to the Intermediate qualified candidates of the Institute of Cost Accountants of India from passing their Common Proficiency Test, the Institute of Cost Accountants of India has granted exemption on reciprocal basis to the Intermediate Examination (by whatever name called) qualified candidates of the Institute of Chartered Accountants of India from passing the Foundation Course Examination of the Institute of Cost Accountants of India with immediate effect.

Kerala wonder

I along with CMA S.C. Mohanty, Vice-President, CMA M. Gopalakrishan, immediate past President, CMA Amit Apte, Council Member and CMA T.C.A. Srinivasa Prasad, Council Member participated in the "Kerala Skills Conclave" organised by CII at Thiruvananthapuram on 22nd August 2012. On this day, we signed a MoU with Government of Kerala in its Skill Development Project by becoming a Knowledge Partner in Banking and Finance Sector. The MoU was signed in the presence of Shri P.K. Abdu Rabb, Hon'ble Minister for Education, Government of Kerala. Shri K.M. Abraham, IAS, Principal Secretary, Higher Education Department, Government of Kerala did the honours from Government side. Under this project, Institute will be offering its Certificate in Accounting Technicians Course (CAT Course) to the students of the Institutions identified by the Government of Kerala. In the first phase 140 schools and 41 Government Colleges are covered. This programme will equip the youth of Kerala to acquire employable skills in Accounting.

We also actively participated in the Panel Discussions chaired by Shri Shibu Baby John, Hon'ble Minister for Labour and Rehabilitation, Government of Kerala and presided over by Shri S. Ramadorai, Advisor to Prime Minister on Skill Development. During the deliberations, CMA M. Gopalakrishan highlighted the role of the Institute in enhancing the employable skills of the youth and I had the occasion to deliberate with the industry icons and highlight the new initiatives of the Institute in contributing towards the growth of the economy and industry.

On the same day, the Institute signed MoU with the Federation of Indian Micro & Small and Medium Enterprises (FISME), in the presence of Shri P.K. Abdu Rabb, Hon'ble Minister for Education, Government of Kerala. This MoU enables CAT students to be absorbed as Interns in the Associate Industries of FISME across the country. This has ushered a new era in the industry linkage of the Institute.

Online Membership

In my last communique I have emphasized the need for strong IT base in the Institute. I feel happy in informing the members that they can now apply online for Membership and Certificate of Practice. The CEP module has also been integrated and is now being operationalised in a gradual manner.

Examination Results

I congratulate all the successful students of the June 2012 examinations. The result of Foundation examination was declared on 2nd August 2012 and for Intermediate/Final/CAT-II on 22nd August 2012.

The Suggested Answers for Foundation/Intermediate/Final examination of June 2012 have been already uploaded in web site of the Institute for the benefit of students.

Placement Activities

The Institute has already initiated the process of organizing Campus Placements for the June 2012 final pass outs in the month of October in 4 locations i.e. Chennai, Mumbai, Delhi and Kolkata. I am confident that the October 2012 Campus Placement will be successful and most of the students will be able to find their future career.

Training Programs

The Institute has organized programs on Cost Accounting Records Rules and Cost Audit Report Rules at Chennai on 3rd August, 2012, at New Delhi on 6th August 2012, at Hyderabad on 17th August, 2012 and on 31st August, 2012 at Mumbai. The programs have received tremendous response from the Industry, Corporate and practicing professionals.

There was overwhelming response and active participation of CMAs in the series of training program organized on "Revised Schedule VI & XBRL (eXtensible Business Reporting Language)" at Kolkata, Delhi, Bangalore, Hyderabad, Mumbai and Chennai.

CEP Directorate also organized two In-house programs for Rural Electrification Corporation Limited on IFRS Convergence and a residential in-house program for Punjab State Power Corporation Limited for Induction Training of their executives. Certificate Course on 'IFRS and Converged Indian Accounting Standards' was organized at Hyderabad during 22-26 August, 2012. During the month CEP Directorate organized three self-run programmes: two at Port Blair during 6-9 August, 2012 on the topics 'Contract and their Management' and 'Emerging Issues in Direct and Indirect Taxation' and one program on 'Basic Financial Skills for Non-Finance Executives and Engineers' at Hyderabad during 28-31 August, 2012.

CEP is also organizing a program on `IFRS and Converged Indian Accounting Standards` during 30th August to 1st September 2012 for Housing and Urban Development Corporation Limited.

Research Activities

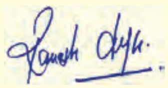
I am happy to inform you that the Research Directorate has taken various initiatives to undertake new research projects. To strengthen the Research activities of the Institute, office of the Research Directorate has been shifted to CMA Bhawan, 4th Floor, 84 Harish Mukherjee Road, Kolkata.

Human Resource Development

It is my firm belief that the Institute needs the services of competent and motivated employees to match the expectations of the various stakeholders. To achieve the objective we have organized a training for the Senior officials (Deputy Director and above) on ''Branding'' on 1st August, 2012 at Headquarters, Kolkata, which was facilitated by CMA A. S. Durga Prasad, Council Member.

I wish all the members and their family on the occasion of Ganesh Chaturthi and other festivals during the month of September, 2012.

With warm regards,



(CMA Rakesh Singh)
31st August, 2012

CMA Manas Kumar Thakur
Chairman
Research & Publications Committee

Dear Professional Colleagues,

Greetings!!!

This is my great pleasure to convey that we have already started spreading over our research activities in various fields to serve the Government, Economy and Society at large. To us, research is not a mere search for knowledge, rather it is a careful investigation, study or inquiry especially through search for new facts or information with the objective to reaching specific goals and outcomes. We are more interested in application oriented practical and timely researches.

We have seen many ups and downs of the world economy in the last few years which have its strong impacts in our economy also. The major challenging global issues now are:

- Highly volatile stock markets
- Bubbles and bust in real estate prices
- Massive expansion and shrinkage of derivative transactions
- Freezing of credit markets
- Escalation in prices
- Acute unemployment
- Low economic growth
- Failures of major financial service firms
- Large government bailouts of banks
- Little reform so far that will matter in the long run

Cost and Management Accountants have a pivotal role to play in all these areas for not only showing the path for control mechanism but also frame the proper road maps towards accelerated growth of the economy. This can only be performed if we have a strong research unit to address those problems properly and come up with effective solutions as a whole.

Cost and Management Accounting Research (CMAR) over the last decade has made tremendous head way in the form of relevance of topics and rigor of methods. However, one of the challenges facing researchers today is continuation of this momentum and the selection of innovative and relevant topics. CMAR is the process of using rigorous methods to explain and/or predict :

- How changes to an existing management accounting system will effect management actions, motivation, and organizational functioning, and
- How internal and external organizational forces will affect management accounting system design and change.

In view of the above broad areas of CMAR, we have undertaken few major initiatives to strengthening our research activities. First of all, we have shifted our Research Directorate at CMA Bhawan, 4th Floor, 84 Harish Mukherjee Road, Kolkata - 700 025 with all sorts of modern facilities conducive to high-level of research activities. We are already enriching our research knowledge base through procuring company databases, e-books and journals, research publications etc. and thus will gradually build up a high-end research library in the years to come.

We are in the process of research collaborations in our core areas with few reputed organizations and institutes such as Chartered Institute of Management Accountants (CIMA), ASSOCHAM, National Institute of Bank Management (NIBM) Pune, Yashwantrao Chvan Open University, (YCMOU) Nashik etc.

We have initiated few research studies in different thrust areas such as Agriculture, Panchayat, Urban Development, Capital Market and other relevant CMAR areas. The outcome of these studies will be published as working papers in due course.

The Research Directorate had organized a Joint workshop in collaboration with Uttar Banga Krishi Viswavidyalaya on the theme "Orientation Program on Project Cost Management in Agricultural Research Projects"at Uttar Banga Krishi Viswavidyalaya, Coochbehar, West Bengal. Similar sort of workshops in collaboration with other Universities are in the pipeline. We are keen to organize research based workshops on various pertinent issues frequently for the benefit of the members and interested researchers.

We are in the process of publishing our next volume of Research Bulletin very soon. We are also planning to publish it quarterly in near future. All the members and researchers are requested to send their research articles, case studies etc. for the coming issues of our research bulletin.

I would like to thank everybody who is associated either directly or indirectly with all those CMAR activities for its successful implementation. I strongly believe that without effective research wing no organization can prosper properly. We are now moving towards building up a strong research wing of the Institute not only for the benefit of our profession only but also to contribute positively towards the inclusive growth of our society and country as a whole.

With warm regards

CMA Manas Kumar Thakur
Chairman
Research & Publications Committee

Social Audit—A Well-Rehearsed LIP-Service

Dr. Paresh Chattopadhyay

FCMA, Ph.D.

Background

The term social audit connotes many things to the corporate honchos on one hand, and the society at large, on the other. The former take pride in submitting themselves to an objective, independent assessment of the state of affairs of companies under their charge as to their roles and contributions to the welfare of members of society at large, to their contributions to improvement in social mores and to the creation of value to the society. Opening up the world of their activities and the impacts they have created, especially the benefits to society that their operations have generated, have attracted wide attention. The honchos are particular to underline that the business of business has been to contribute to the welfare of the society at large as against the social and natural resources that have been placed at their command. Adam Smith's 'invisible hand' has also played a part in all this insofar as resources placed somewhere in the line have been assumed to spread over the entire area of activity. How far this idea has fructified is more a matter of conjecture than reality. The job of social audit has figured more as a matter of magnanimity on their part than a real surge in objectively assessing the net contribution to society- net in the sense that resources consumed and resources made available to the people at large. More particularly, the objective of social audit has been to assess how far the companies have lived up to their promise. Much has also been heard and read about corporate social responsibility, corporate philanthropy and the pretext of state intervention in this sphere by way of enacting several laws in addition to the court judgements on several related issues. Even on all these issues, approaches of different countries have been different and many of the laws enacted have not had much teeth and have been generally lax either in comprehending the issues in their right context or in taking those guilty of deviance to task. A callous attitude to these issues and a flurry of tall talks have engulfed the scene.

The Right Perspective

Social audit in the right perspective should have been a regular and systematic review and appraisal of the nature and quantum of resources put into operation and the utilities created by way of response to, and anticipation of, socially desired goods and services. In particular, on the basis of recognition of the fact that a company is a social institution engaged in productive operations for social purposes, due acknowledgement has to be extended to the following issues:

a. investment made by a company as a social institution has to be directed to the creation of social wealth of different descriptions;

b. investment begets employment resulting in a spread of purchasing power;

c. enhanced purchasing power contributes to the upgradation of productive abilities of the people concerned;

d. enhanced spread of funds encourages growth of entrepreneurship to contribute to the cluster concept of industrial activities by way of ancillaries and different other downstream and upstream industries through cognate development of appropriate technology;

e. higher employment and spread of purchasing power contribute to raising the levels of living of the people; and

f. larger investment is expected to bring in its trail more efficient and more sophisticated utilization of the resources through innovation, rather than remaining tagged on to the traditional, wasteful, baser uses.

Secondly, since the company is admittedly a social institution, corporate profit is social profit, not private profit—as is commonly believed. Corporate profit accrues to the organization as the remuneration for the fourth factor of production. Thirdly, it follows therefore that corporate profit provides the required elixir for a body corporate that does not die automatically. Fourthly, as a product of the law, the company cannot indulge in activities unacceptable to the society at large;

this implies truthfulness in all that it does and does not do. Some of these are indeed indicated in the Consumer Protection legislations but the catchment issues involved are indeed far wider than the said legislations envisage. Last but not least, a company is bound by both concept and law to utilize resources—both natural and created—in a conscientious manner aiming at minimizing wastes and maximizing value to society which includes the milieu in the first place underlining dispensation of benefits to the sons of the soil, as a priority, and then to all those in the outer periphery. All this is to minimize resentment of the local people and to avoid creation of imperium in imperio.

The Job of Social Audit

Social audit in the aforesaid circumstances has its job clear-cut. It relates to ascertaining to what extent and in what context corporate bodies have shown in a time perspective have shown conformity to the norms of operations desired of them with reference to the MOA, AOA and the Certificate of Incorporation in consonance with the norms of their operations. Such a reference is essential for knowing and judging what these companies were supposed to do vis-à-vis what they have actually done during the given period. A discriminant analysis in this context would call for details with regard to the utilization of natural resources particularly those that cannot be replenished—completely in some cases and partially in some others—as against the products turned out and the aftermath such utilization may have created. Social audit has to explore the depths so that suggestion on the total or partial abandonment of such activities may come forth as a recommendation. It is pertinent to point out that equipped with due power in this behalf, social audit efforts may go deep into the physical, economical and sustainability aspects behind operations as against those commercial, in their linkages with the past, present and future concerns. Wanton destruction of natural resources, pollution of the atmosphere with poisonous gases and smoke on one side and ash or poisonous or even valuable chemical effluent discharges on the other side, may figure poorly on the face of apparent commercial success. Here again, according to the obtaining modes, while profit accrues to the company, the society is invariably called upon to bear the costs behind such profit. This would appear unfair all the way as the society is required to bear the brunt of big losses against the gains accruing to the companies. Inquiries into the state of affairs would very likely bring several stark facts in the open either totally ignored according to the current practice, or not made much of or even just brushed aside. Government in most such cases has acted in the past and still acts as a spectator. In some cases, people's resentment is sought to be satiated by establishing a mosque, a temple or a church tickling the religious sentiments. Assessment of the gains and losses arising from corporate activities is a major responsibility of social audit. If conducted objectively and independently, numerous skeletons in the cupboard would surely come in the open, making one look askance at the whole proposition of corporate profitability, according to the current reckoning. As social institutions, bodies corporate are honour-bound to look into what truly constitutes profit in the larger sense of the word, underlining efficient economic performance, value addition to society, emphasis on effectiveness more than on efficiency - understood in the sense of doing the right things, rather than of doing the given things rightly. In practice, this distinction is hardly made, resulting in blurring the picture that emerges. A reference to some specific cases would make the contexture of the propositions clearer.

Thermal Stress

Long back, during the early 1960s, the Chief Inspector of Factories aptly reported that continued exposure to heat that the employees in several engineering operations were expected to endure, suffered from excessive stress causing various ailments and affecting productivity adversely. Hardly any measure other than reducing the working hours could be taken by management earlier because of the insistence of the workers and unions . In many cases, the distinctive features of the operations were not recognized and nor could proper steps taken either by way of reduction of duty hours or of alteration of the work processes or other measures for mitigating the ill-effects. Over time, thanks to changing technology some improvements were caused but the problem remained in some measure. Management in many such cases were not disposed to reducing the duty hours or to providing extra incentives. That thermal stress in such industries turning out different products through a variety of operations caused several health problems that affected productivity of the concerned workers was not recognized till the Chief Inspector's report insisted that all such hazards should be recognized in fixing duty hours, in determining incentive schemes meant for them and, more specifically, in arranging for proper healthcare systems for all those subject to occupational hazards of various kinds, related directly or indirectly to thermal stress. The cognate enactments in these cases, like the Factories Act, Workmen's Compensation Act, etc., should have been followed both in letter and spirit. That was not to be. But lip service to these issues has been frequent.

Iron and Steel Industry

Iron and Steel industry impacts society adversely in five discrete manners. First of all, the ores mined create a vacuum underground raising issues of underground instability. Stowing sand hardly restores the earlier balance. Secondly, iron and other ores that go into production of steel cannot be replenished. This means that national wealth in this form is lost for ever affecting sustainability. Companies in different parts of our country, especially Goa, have been engaged in exporting iron ore to different countries which have given them high profits at a huge cost to the country. There has already been a worldwide shortage of iron ore and other complements and steel manufacturers have been desperate in locating and acquiring iron ore deposits and mines in different countries covering different continents. Thirdly, manufacture of iron and steel requires high grade coking coal for smelting and other processes, starting from pellets to pig iron to steel ingots to the billets and structurals and other products for specific uses. Fourthly, blast-furnace slag (a stony waste matter separated from the manufacture of iron and steel) for long used to have been treated as a waste deposited in slag heaps until rather very recently and until these were found to be usable as cheaper inputs for manufacturing cement due to their pozzolana characteristics (meaning that they set under water).

Coal : The Undaunted Villain

Burning coal has been an integral part of numerous industries throughout the world and exploitation of coal mines and extraction of coal in very large quantities as a basic source of providing power for different industries, large, medium and small. As a cheap source different depths. As deeper and deeper seams are mined, costs of coal soar and health of the miners remains at stake. From the point of view of social audit it calls for a closer examination of the surface stability, flooding of mines and the quality of coal at deeper seams vis-à-vis the risks involved. The generation of smoke at the manufacturing stage and ash, fly ash and smoke and other concomitants with respect to different industries like thermal power generation, iron and steel, cement, textiles, chemicals and others carry a good deal of nuisance. Determination of the type of all this, the nature of deleterious effects that each of them contains and quantum of ill-effects generated, at least a cognitional reference to all of these ill-effects, can inform, educate and caution the public duly and the steps that people in the vicinity of such sources of nuisance should take to protect themselves; this may indeed be akin to what Rabindra Nath Tagore referred to as the Discovery of Shoe in one of his celebrated poems, as a measure of protection from the engulfing and over-powering dust, choking people's breath. Social audit may underscore the establishment of healthcare units as a must for all such industrial units that generate dust, cause health hazards through release of poisonous gases or discharge of effluents having hazardous chemicals and bad smell such as in the leather or the chemical industries. One gratefully remembers in the present context the verdict of Mr. Justice Bhagabati Prasad Banerjee of Calcutta High Court against noise pollution during the celebration of Durga Puja and Kali Puja celebrations, prescribing decibel limits of noise during day and night near hospitals, educational institutions and other places of public interest. However, compliance with the law in this respect has been under a question mark all this while.

Social Audit of TISCO

In this context, one remembers the Social Audit assessment initiated by J.R.D. Tata at Jamshedpur under the chairmanship of a Judge. The appointment of a High Court Judge itself was to underline the objectivity of the inquiry conducted by a group of specialists headed by the Judge which was comprehensive, deep probing and fair. While the team appreciated the good socially-oriented activities of the TISCO authorities like health care, township, education, provision of transport facilities, recreation, etc., it was quite critical of some of the other issues. As one would approach Tata Nagar, one would be greeted by a black hillock in the background consisting of coal-dust and ash. Contribution of Tatas towards the establishment of a top-grade Institution of Science at Bangaluru, Tata Institute of Fundamental Research, and Tata Institute of Social Sciences at Mumbai and Ratan Tata Library under Delhi School of Economics, Delhi University, are but a few instances of the contribution of Tatas. Incidentally, the Institute of Science at Bangalore (now Bangaluru) was established by J.N. Tata at the instance of Swami Vivekananda when the latter met the former during an ocean trip to the West. While there is little doubt that all these contributions have to be written in letters of gold, Tatas' contribution to the uplift, so-called spatio-economic development of Bihar as a whole left a lot to be desired. Bihar continued to be among the BIMARU states, a concept developed by well-known demographer, Dr Ashish Bose of Delhi University, on counts of demographic components of the people at large, the socio-economic uplift of the AAM AADMI and the overall standard of living of people of Bihar, as the state figured among the most backward of states in India till very recently.

Demand for Clean Air

Air pollution caused by industries has remained widespread albeit the rather superficial attempts of the management to do something in this regard. Polluted air in the townships built up by the units belonging to both public and private sectors has remained a matter of concern to both the inhabitants and to the people living near by. Vehicular traffic in these townships and activities centring on the units have created problems of unclean air on a wide scale. Of late, the state of air quality is being regularly reported with respect to the variety of poisonous gases, suspended particulate matters and other elements like dust—both visible and non-visible—at different hours of day at various places in industrial towns and other cities but actions taken to reduce their deleterious effects remain anybody's guess. In the advanced countries of Europe and America as also Japan, facts gathered on this count are taken seriously.

The Case of Potable Water

Very much like the scourge of unclean air, there is the burning question of potable water. Reports of even underground water being heavily polluted frequently surface from different quarters embracing both cities and villages. The presence of arsenic and widespread contamination of both surface and underground water have been a matter of long standing concern for both municipal bodies and government of the states and the centre but lip-service apart, not much has been achieved on this count. In the meantime, sufferings of the people from this dreaded killer have remained largely unattended. The reasons are as simple as not taking the matter seriously by the people as much as by the government until the situation goes out of hand. Though not related to supply of potable water, it would be appropriate to draw a parallel with the countries of the European Union. The European countries stand out from the rest anywhere, insofar as the EU authorities impose heavy fines on the delinquent member countries so that the concerned authorities have started considering it more convenient to obey the law and orders issued by the EU authorities. The directions of the EU authorities in this regard are results of hawk-eyed observations of what has been going on so that the industrial units and the local authorities of the member countries consider it inappropriate to contest the directives and cheaper to comply with the directives than to pay the fines which are considered higher than the cost of correctives to be taken by those faulted. The culprits in this context are many in our country. Apart from the people at large, they also include the municipal authorities and the concerned government departments of the centre and the states. In many a case, the High Courts in the states had to intervene time and again to make governments take necessary steps for dealing with such situations, particularly for the effective and timely compliance of the governments' own diktats as contained in the relevant legislations. There can be no better example than to cite the example of the water of the Ganges and other holy rivers of the country rendered impure by the unending flow of sewerage, throwing carcasses into the water considered appropriate for passage to the other world and allowed to decompose and accounting for stinking smell all around to the total inconvenience of the people who use such water for daily purposes.

Organization of Social Audit

For serving a useful purpose, social audit should be on a regular and systematic basis and the findings should be made public with an indication of the actions taken thereon. Since all the industries, that may be under the purview of social audit do not have the same features, industry-specific social audit programmes should be developed with an eye to the seasonal factors capable of raising typical issues. On the other hand, since industries involve multi-disciplinary issues each of which calls for a deeper probe, the social audit team should consist of experts belonging to different related disciplines. The multi-part audit reports issued by the Comptroller and Auditor General of India issued since 1970 may provide useful guidelines for framing the format of inquiry and for writing the reports. The social audit team should be headed by a High Court Judge—sitting or retired—and should have a representative of the CAG as member along with CMAs and experts in the particular line concerned. The audit programme may be sponsored by industry associations, chambers of commerce or government as may be considered appropriate in each case. The audit work may relate to each company in an area, a group of companies in the same lines of activities in the concerned area or even on a wider basis. Copies of the social audit report should be submitted to the Ministry of Corporate Affairs, Government of India, for inclusion in the Annual Report submitted to Parliament by the Ministry. Since companies are social institutions as underlined earlier, social audit reports may also be included as a part of the corporate governance reports included in the Company Annual Reports. It may be mentioned in this respect that as social institutions, companies are required to align their functions to the social dictates. The position of the companies in the society has got to be seen in the light of social institutions existing for a social purpose. All this is not philanthropy, but a bounden duty of companies towards those who comprise the work force, including managers, and who also constitute the consuming public who keep the companies going. ❐

The Intellectual Roots of Corporate Social Audit

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Introduction

Measurement and appraisal of social performance of business—described variously as social audit, social accounting, corporate social responsibility and a host of other monikers—had their rise (as well as fall in interest) in the 1970s. It had some thin and sporadic history prior to that (e.g. Kerps, 1940, 1962; Bowen, 1953; Leavitt, 1958; Davis, 1960, 1967). By the 1980s the wave of environmentalism had overshadowed much of the enthusiasm for social audit and, since 1990s, after the Rio Earth Summit, when environmentalism emerged as a new socio-political force and was catapulted high into the political agenda of the governments around the world, social audit and accounting assumed a new, and perhaps politically more correct, visage and came to be known by new brand names like Social and Environmental Accounting (SEAL), Environmental Accounting/Auditing and Triple Bottom Line (TBL) Reporting, and still more variants like Corporate Responsibility Report, Corporate Community Engagement Report, Corporate Stewardship and Corporate Sustainability Report. [A detailed list of their recent English and non-English variants can be found in Roy, 2009].

Social audit was purportedly seen as a discourse through which to entwine and develop relationships between business and society, community and nature. Nevertheless, the history of the evolution of social audit would show that there were many fleeting moments of prominence dotted with a welter of issues such that, Dow Votaw (1972), a professor of Business Administration at the University of California, Berkeley, curiously observed : ''The term is a brilliant one; it means something, but not always the same thing, to everybody'' (p. 25). As things did not change much, a couple of decades later, Carroll (1994), a noted researcher in the field, had no different story to tell. In a distinct sense of déjà vu, he observed that the field transpired to be ''an eclectic field with loose boundaries, multiple memberships, and differing training/ perspectives; broadly rather than focused, multi-disciplinary; wide breadth; brings in a wider range of literature; and interdisciplinary'' (p.14). Regrettably, with a mélange of views and terminologies, Carroll (1994) found the map of the overall field to be quite poor. This is indeed the view echoed by many earlier researchers in the field, including Sethi (1975) who also observed that a whole body of research and writing dealing with the issue of the measurement of corporate social performance has been lumped under the somewhat misleading title of corporate social audit (p. 59).

In the same vein, Gray (2001) in his commentary on the thirty years of social accounting, reporting and auditing, have put all these terms under a single rubric; however, to provide some relief he had footnoted the difference among them : ''Terminology is a problem in this area. At its most basic, I use the terms here as follows. 'Accounting' is used to refer to the preparation and presentation—by the accountable entity—of an account of its social interactions. 'Social Audit' is used typically to refer to accounts prepared by bodies independent of the accountable entity. However, that term is also widely used in a 'taking the social pulse of an organization' sense when the social audit may be undertaken by the entity itself. 'Reporting' refers to the communication of the account or the audit. 'Attestation' is used here to refer to the expressing, by an independent body, of an opinion about the reliability, honesty, etc., of the account'' (p. 14). The subtleties of differences notwithstanding, Gray (ibid) as well as in most contemporary literature (e.g. Hess, 2001) social accounting, social audit and reporting have been used rather interchangeably].

The Intellectual Roots

While the possibility of tracing the intellectual provenance of social audit and accounting to other disciplines is not being ruled out, the earliest use of the term in the context of business can be attributed to one Stanford Professor, Theodore J Kreps, whose monograph on Measurement of Social Performance of Business (1940) had defined and described the idea of social audit, albeit in somewhat different sense than those used by the other writers in the 1970s. He suggested that, ''The acid test of business is not the profit and loss statement but social audit'' (p. 2), which implied ''maximum production of goods and services; maximum consumption; maximum pay rolls; minimum cost, i.e. the surrender by consumers of a minimum amount of effort in return for the products of business; maximum employment; full utilization of capacity'' (p. 3).

Needless to mention that Kerps' idea of social audit reflected on the reality of post-Great Depression America and the tall shadows of communism on the capitalistic mode of production and consumption on either side of the Atlantic. In the aftermath of the Great Depression in the United States in 1929-1933, America had faced widespread factory and mills closures, and unemployment soared, reaching nearly 25 percent of the US workforce in 1932. The Communist Party of the United States attained its greatest influence in the 1930s and early 1940s, when the acute hardship of the Great Depression caused many to question capitalism.

The decades that followed the Great Depression had only deepened the crisis, further exposing the US institutions to a full-scale systemic crisis. Government authorities came under attack from coordinated opposition to the Vietnam War and from civil-rights groups, against a socio-economic backdrop where urban poverty and ghettoization were among the USA's most pressing political issues (Acquier et al, 2011, p. 225).

In the face of such developments, there was a groundswell of movement for change in the United States, placing demands upon it to re-invent capitalism in which the rules of the game must also change in consonance with evolving social norms (cf. the contemporary legislations in the United States: The Federal Water Pollution Control Act, The Clean Air Act Amendments of 1977, The Occupational Safety and Health Act of 1970, The Equal Employment Opportunity Act of 1972, The Consumer Product Safety Act and The Federal Hazardous Substances Act). I shall revisit this point later on in this article while discussing the theoretical plank, where social contract view of the firm and consequent issue management surfaces as a raison d'être for social audit.

Returning to the point about the antiquity of Kerps' idea on social audit, it is surprising that he did not evince wide interest and following (See Carroll and Beiler, 1975). In the presence of the Kerps Monograph on the subject it, however, sounds queer that a book written much later by Howard R Bowen (1953) entitled, The Social Responsibility of Businessmen is considered by many, though erroneously, to be the fountainhead of the concept. Even Bowen himself asserted his claim to originality : ''To my knowledge the concept of social audit has not been suggested previously'' (Bowen, 1953, p. 156).

Interestingly, Kerps made no such claim; rather, in a later edition of his work (Kerps, 1962), he alluded reference to Aristotle who reportedly said, ''Making money versus making goods ... constitutes the basic social audit of economic institutions and practices'' (p. 20). Nevertheless, Bowen's work had set the standard for social audit, which he conceived to be ''an appraisal of individual corporations ... by persons outside the company who would have a more disinterested and detached view of its activities than company employees'' (Bowen, 1953 : p. 156). The list of activities that would be the subject of social audit, according to Bowen (p.155), are : (i) prices; (ii) wages; (iii) research and development; (iv) advertising; (v) public relations; (vi) human relations; (vii) community relations; and (viii) employment stabilization. Bowen also suggested about the desirable qualifications of the auditor—who should be: (i) oriented toward the social point of view; (ii) conversant with business practices and problems; and (iii) technically trained in such fields as law, economics, sociology, psychology, personnel, government, engineering, philosophy, and theology. Understandably, the requirement of such extensive qualifications generally not being endowed in one person, Bowen envisaged his social audit as a team work. Bowen's version of social audit was extremely insightful and more related to the modern version of the audit than was the Kerps approach, which did not contain any specific applications of social audit (Carroll and Beiler, 1975 : p. 594).

Bowen's work had drawn wider attention from the Management discipline and provided it with a mother lode of materials for research in an emerging field that came to be known as SIM or Social Issues in Management, and also for an interdisciplinary field of study that found its place in the curriculum of many business schools (Wood, 1991). It also served as a precursor to a revolution in accounting—the social accounting—that had been defined broadly by Sybil Mobley (1972) as ''the ordering, measuring and analysis of the social and economic consequences of governmental and entrepreneurial behaviour''; and by other commentators subsequently as ''an extension of disclosure into non-traditional areas such as providing information about employees, products, community service and the prevention or reduction of pollution (Mathews and Perera 1995, p. 364). However, the term ''social accounting'' is also used to describe a comprehensive form of accounting which takes into account externalities (ibid.). Interestingly, the definitions of social accounting cited here does not appear to be much different, except however in linguistic construction, from that of social audit offered by Bauer and Fenn (1973), who are considered to be the pioneers of modern form of social audit. According to their definition, social audit is ''a commitment to systemic assessment of and reporting on some meaningful, definable domain of a company's activities that have social impact'' (p. 38).

There are numerous other definitions of social audit, but more insight into its intellectual provenance may be gained from the related developments in the other fields, particularly in economics. By the time the accountants were groping around for direction, the economics profession was ready with its systematic analysis of the problem at hand : J. R. Hicks had already published his celebrated work, The Valuation of Social Income (1940), having completed another great work, The Foundations of Welfare Economics (1939), a year earlier; and A. C. Pigou introduced to us the idea of externalities ''as a divergence between social and private net products'' through his famous works, The Economics of Welfare (1920) and Wealth and Welfare (1912). The wave of welfare economics that followed these works was also accompanied by new social indicators, alongside the traditional economic indicators, to reexamine the relationship between wealth and welfare within the capitalistic system. No wonder that accounting profession in a proactive stance would take the chance of basking under the reflected glory of the welfare economics and 'externalities' would became the common refrain of most treatises in the newly emerging area of social accounting enquiry (see Estes, 1972, for example).

Indeed, the decades of 1960 through 1970s, which marked the rise of social accounting, appears to be the most interesting period in the development of modern accounting. In the United States, it marked the period of the Accounting Principles Board (1959-1973) which set itself to the ambitious task of making a grand unified theory of accounting (the famous principles-postulates approach) , but its ultimate inability to make one led to the formation of the Financial Accounting Standards Board to spearhead a quick-fix approach to standard setting.

However, an important committee set up by the AICPA to expedite standard setting in the USA, the True Blood Committee, broke with traditional orientation of financial reporting on stewardship and instead added socioeconomic dimensions to the scope of accounting by stating that ''an objective of financial statements is to report on those activities of the enterprise affecting society which can be determined and described or measured and which are important to the role of the enterprise in its social environment''.

In similar vein, in the UK, The Corporate Report (ICAEW, 1975) took a wider view of accounting and sought to include employment, consumer issues, environmental matters and other relevant social issues.

In the United States, commensurate response and recognition of the importance of contemporary social issues came both from the AICPA and a dominant research organization of the accountants, The American Accounting Association (AAA), e.g. Report of the Committee on the Measurement of Social Costs (AAA, 1974); Report on the Committee on Accounting for Social Performance (AAA, 1976) and The Committee on Social Measurement: Determining The Impact of Business Action on Areas of Social Concern (AICPA, 1977), to mention a few.

Indeed, by the late 1970s, social accounting and social responsibility disclosure had become the de rigueur of any intellectual discourse on the subject of accounting. In consequence, a number of social responsibility disclosure models had been proposed, e.g.

- Linowes' Socio-economic Operating Statement (1972)
- Seidler's Social Income Statement (1973)
- Abt's Social Audit (1977)
- Este's Comprehensive Social Accounting Model (1976).

These models attempted to breakdown the broad term ''social responsibility of business'' into identifiable components and develop scales that can measure these components (Sethi, 1972-73). For example, recommending for an internal socio-economic audit to be conducted periodically, the subject matter of Linowes' model was voluntary disclosure on relations with people, environment and product responsibility. Seidler's model went a level deeper to include a social income statement, intended to be prepared both for profit and non-profit organizations, to depict the sum total of economic value generated by the organization and shared by the various participants in the organization. The model proposed by Abt Associates (a consultant firm with Clark Abt as its president) included a Social Income Statement showing the benefits to the company, to the staff, to the general public and the community.

In consequence of those theoretical developments, the United States had witnessed a surfeit of social reporting experimentations. Hess (2001) thus found that in 1974 alone, 76 percent of the 284 respondents (and 86 percent of corporations with sales over $10 billion) attempted to assess their social activities and one-third of the responding companies made some type of disclosure on social performance to the public, while 14 percent issued a standalone social report (prominent reporters among them were Bank of America and General Motors).

In India, an attempt at practical articulation of the Linowes' model and Abt's model was made by the Tata Iron and Steel Company (TISCO) in the early 1980s. Pursuant to Clause 3A of the Articles of Association of the company regarding its social and moral responsibilities to the consumers, employees, shareholders, society and the local community, TISCO had set up a Social Audit Committee involving outsiders (comprising Justice S. P. Kotval as the chair and Rain Kothari and P. G. Mavalankar, two university professors, as members). The Report of the Committee, which was submitted in July 1980, contained eleven chapters, describing—among others—the justification of social audit, evaluation of the performance of the company in relation to the development of Jamshedpur city as the first steel city of Asia, works and mines, pollution control, employer-employee relations, consumers, shareholders, community development and society welfare, rural development and society. The TISCO social audit report, however, makes an important departure from the Linowes' and Abt model in the sense that while these models used quantified social performance statement, the TISCO report is, by and large, descriptive in nature. However, the Social Income Statement and Social Balance Sheet of the Cement Corporation of India, which was also published in the mid-1980s, had used financial quantification.

Ralph W. Estes—who explained his model in his Corporate Social Accounting (1976)—defined it as ''the measurement and impact of an entity and its activities on society'', but a review of the book appearing in the Journal of Accountancy (April 1977: p.93) shows that this work failed to draw enough attention from the critics. The reviewer of the book, Eric Flamholtz, who had already become famous for his Human Resource Accounting (1974), had made many scathing remarks about the merit of Estes' proposal, e.g.

a. ''Although the author makes a reasonably good case for social accounting, his discussion of the subject's nature and scope is rather cursory. He fails to define the field adequately; he limits his discussion by stating that ''a firm may be said to be engaged in social accounting when it moves beyond its financial operations and begins to measure and evaluate its other effects on society'' (Flamholtz, 1973 : p. 93); and

b. ''Estes' own proposal for a social accounting model is described in a later chapter. In brief, he proposes the measurement of net social surplus (or deficit) for the year. The method is analogous to obtaining a net income figure, and Estes proposes a ''social income statement'' comparable with the conventional income statement. It is an interesting concept, but its usefulness to managers and accountants-the book's intended audience-is limited because Estes doesn't examine the model's validity" (Flamholtz, 1973 : p. 93).

There were a number of other works or close cousins of those mentioned above. For example, Raymond Bauer and Dan H. Fenn, The Corporate Social Audit (1972); David Blake, William Frederick and Mildred Myers, Social Auditing (1976); Dilley and Weygandt (1973) provided a statement of funds flow for socially relevant activities for a power station. But as Mathews (1997) observed, despite the enthusiasm created by the first Earth Summit at Stockholm in 1972, in those works environmental areas were not separated from other social impacts. Beams and Fertig (1971), Belkaoui (1976) and Ullmann (1976) remained notable exceptions for their explicit treatments and proposals to accommodate environmental issues within the domain of accounting. In summary, as Mathews (1997) put it, ''the period 1971-1980 was not one in which the environment was on top of the list for accounting academics and policymakers. Those researchers and writers interested in the social dimension were generally more concerned with what would now be called ''social accounting'', especially disclosures relating to employees and product. The empirical studies included environmental issues as part of a large portfolio of interests, and many of the studies were descriptive and relatively unsophisticated by later standards'' (p. 490).

Compared to the decade of 1970s, the decade of 1980s had witnessed some sweeping change in the direction as well as in the interest in social accounting. Unlike the preceding decade—when value added statements and employee reports had a great vogue—in the later decade general social disclosures had become less common. As Gray (2001) had expressed his observations, rather laconically, "Whilst social accounting enjoyed considerable experimentation and currency in the 1970s it fell off the public agenda in the 1980s, so much so that there was considerable hostility to the concept during the 1980s and beyond" (p. 9). Indeed, the literature during this time is replete with examples to suggest that social audit, social accounting and reporting, in its curious journey, meandered considerably before it finally melded into the much larger arena of CSR and its modern form, the Triple Bottom Line Reporting.

Theoretical Underpinnings

Although CSR (a catch-all phrase for social audit and all its variants) has more of a discursive than systematic history of its development, in his attempt to impart some order into its discussion, Frederic (1987) has classified them into four broad phases : CSR1, CSR2, CSR3 and CSR4. CSR1 (Corporate Social Responsibility), which was developed in between 1960s-70s, tended to generate normative statements and models. CSR2 (Corporate responsiveness), which is the action-oriented managerial concept leading to the actual, demonstrable achievements of the company on the face of social pressure (corporate social performance or CSP and stakeholder management) appeared in between the mid-1970s and the 1980s. CSR3 (Corporate Social Rectitude), which appeared in the mid-1980s, had some ethical or moral threads running through it. CSR4 (C > Cosmos; S > Science; R > Religion), which is a critique of the inadequacies of present CSR theorizing, 'attempts to put the significance of individual companies into perspective and stresses the importance of natural science and meaning for the development of society's institutions' (compare with the new eco-social paradigm of Arne Naess, the Norwegian philosopher and author, The Basics of Deep Ecology : ''In the Deep Ecology Movement we are biocentric or ecocentric. For us it is the ecosphere, the whole planet, Gaia, that is the basic unit, and every living being has an intrinsic value''). Admittedly, Frederic pointed out, such a stage of CSR has not arrived yet.

However, Frederick (1998), while citing Kuhn (1962: the Structure of Scientific Revolution), quite appositely observed, ''new paradigms tend to emerge when conventional ways of thinking no longer provide satisfactory answers or when normal science produces only humdrum answers''. In the 1960s Keith Davis put two simple questions : What does the businessperson owe society?'' (Davis, 1967) and ''Can business afford to ignore its social responsibilities?'' (Davis, 1960). These were intriguingly simple questions, which at best evoked divisive answers [for example, Milton Friedman's (1970) famous tirade against CSR: ''The social responsibility of business is to increase profits'' v. Samuelson's (1971) trenchant repartee : ''A large corporation these days not only may engage in social responsibility, it had damn well better try to do so''] and at the very worst remained unanswered. No wonder that the CSR literature is à gogo with various classification or taxonomic schemes leading to a myriad of theories in an attempt to answer the fundamental questions raised by Davis. One such recent attempt, which is broad enough to accommodate most of these theories, is found in Garriga and Melé (2008). These authors (from whom this section of the paper draws on to some extent) have classified all those CSR theories into the following categories.

- ***Instrumental Theories***

The instrumental theories posit the view that CSR is a tool to achieve economic objectives and, ultimately, wealth creation. The principal apostle of the idea is Milton Friedman, the dénouement of which is expressed as : ''there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud.

''Garriga and Melé have identified three main groups of instrumental theories :

First, those theories which seek to maximize shareholder value, measured by share price. At its simplest, these theories presume that managers would not intentionally engage in any CSR activity at the expense of shareholders. In contrast, if managers engage in CSR activities to respond to the needs or demands of a broader group of stakeholders, then it is possible that some CSR activities are undertaken at the expense of shareholders (Moser and Martin, 2012: p. 798).

The second group of theories, identified as ''strategies for achieving competitive advantages'' is premised upon social investment in competitive context which is championed by Porter and Karmer; they argued that investing in philanthropic activities may be the only way to improve context of competitive advantage of a firm and usually create greater social value than individual donors or governments can.

The third group of theories, identified as the strategies for bottom of the economic pyramid, is championed by CK Prahalad who suggested that the poor of the world, numbering about 400 million, can be served profitably. This strategy also includes cause-related marketing which is characterized by an offer from the firm to contribute a specified amount to a designated cause when customers engage in a revenue-providing exchange that satisfy organizational and individual objectives.

- ***Political Theories***

The political theories, according to Garriga and Melé (2008), are based on three strands :

First, The Corporate Constitutionalism, which is propounded by Davis (1960), is based on notion that business is a social institution and, therefore, the power and privilege that it enjoys must be used responsibly.

This ''social power equation'' is also the basis for widely accepted Second strand of the political theory, the Integrative Social Contract View. K. V. Ramanathn (1976) seems to be first among the accountants who had posited the social contract theory of social accounting. It is here categorically pointed out that such a social contract view or social power equation was advanced much earlier by Peter Drucker. Drucker in his Concept of the Corporation (1946) had conceived a corporate entity as a social institution and later in his another magnum opus, The Practice of Management (1954) had expanded the view that 'the managers have power over people, that they have to make decisions that shape the economy, the society and the lives of individuals within it for a long time to come'. Because of such concentration of power 'management is also responsible for making sure that the present actions and decisions of the business enterprise will not create future public opinion, demands and policies that threaten the enterprise, its freedom and its economic success'.

The third strand of the political theory is known as Corporate Citizenship, which is focused on rights, responsibilities and possible partnership of business in society.

- ***Integrative Theories***

The group of theories labelled as the integrative theories look at how business integrates social demands, which, in turn, accords it the existence, continuity and growth. Social demands are the way in which society interacts with business and gives it certain degree of legitimacy and prestige. As a corollary, corporate management should take into account social demands and eventually integrate them in such a way that business operates in consonance with social values.

The principal strands of the integrative theory are (i) issues management; (ii) stakeholder management and (iii) corporate social performance. They provide the major plank of the corporate social audit/ accounting of the 1970s.

- ***Ethical Theories***

The group of theories, known as the ethical theories, is underpinned by the ethical requirements that bolster the relationship between business and society. The various strands of the ethical theories are:

(a) Normative stakeholder theory, which owes its origin to R.E. Freeman (1984), maintains that managers bear a fiduciary relationship to the stakeholders. Freeman had defined a stakeholder broadly as a person who can affect or is affected by the organization. Therefore, a socially responsible firm requires simultaneous attention to the legitimate interests of all appropriate stakeholders and has to balance such a multiplicity of interests and not only the interests of the firm's stockholders.

(b) Universal Rights Theory, which is premised upon universal human rights, has the objectives of supporting economic, social and political justice by companies where they do business. These principles, which were articulated in the UN Global Compact and the Global Sullivan Principles, incorporate nine principles in the area of human rights, labour and the environment. These principles are now enshrined in management framework and auditable standards like SA8000 and AA1000AS (Roy, 2011—Handbook).

(c) Sustainable Development Theory, which is an offshoot of the Brundtland Report, is a value-laden concept that offers an insight into man's prudent use of the earth. Sustainable development is a widely debated concept but notwithstanding its polemics, in the context of business it has been taken to mean "adopting business strategies and activities that meet the needs of the enterprise and its shareholders today while protecting, sustaining and enhancing the human and natural resources that will be needed in the future" (IISD/ Deloitte Touche, 1992). The much-touted triple bottom line reporting—the latest in the evolution of CSR—which includes economic, social and environmental aspects of business, is a practical articulation of the three pillars of sustainability enounced by the Brundtland Commission (1987) in its path-breaking report, Our Common Future.

Conclusion

Social audit, which had started its journey as a discursive practice, is now subsumed under the larger field of corporate social responsibility. However, its history makes one thing clear that the notion of social responsibility, from which social audit emanates, is essentially a dynamic concept; as such, its philosophy remain unchanged, but the content which is accorded to its meaning may change in response to the social demands placed upon business. At a time when the form and content of CSR was undergoing a metamorphosis in the last fifty years, Peter Drucker (1946) had no qualms in stating that, ''Even the most private of private enterprises is an organ of the society and serves a social function'' (p. 381).

Evidence galore, humanity has always strived for an ideal society, but it is the instruments of realizing that goal over which it is divided, so to say, between the Hobbesian absolutism and Smithsonian laissez-faire and invisible hands—the two extreme poles, but with a continuum of other possibilities in between as well. Absolutism (as espoused by the seventeenth-century British philosopher and political theorist Thomas Hobbes in his much controversial work, Leviathan, in which he had portrayed an extremely dim view of bellicose human nature which can be controlled by a single power that is strong enough to force everyone to follow rules and live in peace) propagated totally authoritarian principles.

Adam Smith, on the other hand, representing a completely opposite view, had put his faith in the functioning of the invisible hands. While absolutism of Hobbes has been consigned to the graveyard of history, the limitation of the Smithsonian invisible hand is pointed out by Drucker (1954) rather poignantly, ''It can no longer be based on the assumption that the self-interest of owner of property will lead to the public good, or that self-interest and public good can be kept apart and considered to have nothing to do with each other'' (p. 382).

However, with the juggernaut of globalization (a euphemism for Americanism?) where a sneeze of the Dow-Jones sends the corporate world into topsy-turvy, where corporate shenanigans are order of the day, where the Wall Street calls the shot and where greed is the creed, can corporate organisations be a true community, as Drucker envisioned, which will offer a lasting place for each of its members? Will social accounting and audit stand a chance before corporate rapacity? Bowen, while scripting his magnum opus, had left a question for the future researchers in the field to resolve : ''To what extent do the interests of business in the long run merge with the interests of society?'' (Bowen, 1953 : p.5).

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Relevance of Social Audit in Government and Private Sector

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Broadly speaking, social audit is a mechanism that empowers the people – the ultimate beneficiaries of any scheme, programme, policy or law – to audit such schemes, programmes, policies and laws. This way, Social Audit ensures the involvement of potential beneficiaries and other stakeholders of an activity or project from the planning stage to the monitoring and evaluation of that activity or project. As India is a Welfare State, so many programmes and schemes are launched for the benefit of people. However, whether these programmes and schemes are implemented in letter and spirit at the grassroot levels, whether funds meant for poor people really percolate to the beneficiaries, whether timelines envisaged in the schemes are met and whether proper accounting checks and balances exist in the system – all require empowerment of people so that the performance on these programmes and schemes is independently and purposely assessed by way of a mechanism that is fast rising in the name of 'Social Audit'. Social Audit is supplement to the conventional audit. It is relevant both in Private Sector as well as Government Sector, although it is more urgent in Government Sector where funds are drawn from the state exchequer i.e., public money.

Social Audit in Private Sector : For a private organization, although earning a fair and reasonable profit on its investments, it has certain social responsibilities to its various stakeholders, viz., customers, employees, shareholders and of course also to the society at large of which it is an integral part. However, there must be some mechanism to gauge whether business is alive to those responsibilities and how far it is striving to carry out its social obligations. It is here that need of Social Audit becomes pertinent in addition to the conventional financial audit. Cost audit to some extent fulfils some aspects of Social Audit. In social audit, a systematic attempt is made to identify and evaluate those activities of a business which have social impact. A social audit is a systematic study and evaluation of an organization's social performance as distinguished from its economic performance.

Social Audit tries to evaluate positive impact of an organization's activities on the social well being of people. It is assessed by way of Social Cost and Benefit analysis of its activities. Whereas, social cost may be usage of scarce natural resources, environmental pollution, deforestation, spread of occupational diseases, injuries/deaths at work place due to poor maintenance policies, health hazards to the nearby population, etc. Bhopal Gas Leak victims are live example in this regard who are still clamouring for their rehabilitation although almost three decades have passed since the tragedy took place. In comparison, social benefits may be like fairness and reasonability of pay packages of staff and wages to the labour, creation of employment opportunities, setting aside some money for philanthropic purposes, sponsoring sports/other social events, partnering development with the Government, payment of taxes on due dates. Social results cannot be expressed in monetary terms so they are difficult to measure. Social results are also difficult to measure because most of them occur outside the organization and the firm has no way to secure data from these outside sources.

Types of Social Audit : Social audit may be of the following types :

1. **Social Income Statement and Balance Sheet Audit :** Under this type of audit, Social Income Statement and Balance Sheet is prepared by the organization showing therein the social costs and social benefits assigning monetary values to these Statements and the accuracy of the same is verified by the Social Auditor.

2. **Social Performance Audit :** This type of audit takes into account the performance of a particular organization vis-à-vis its core function. For example, the performance of a company manufacturing consumer goods may be evaluated in terms of supplying quality goods at reasonable prices. Similarly, performance of public sector undertaking may be appraised in terms of providing jobs to weaker sections of the society.

3. **Government Mandated Audit :** There are various Government agencies which have a mandate to check performance of an organization in relation to its social obligations. For example, all states have Pollution Control boards to check whether an organization is conforming to efficient management

of pollutants. Similarly, there are Labour Welfare Departments to look into working conditions as well as wage rates of the workers.

4. Social Programme Audits : Many companies in India have launched social benefit programmes. Social Programme Audit is conducted to assess the effectiveness of these programmes.

Benefits of Social Audit

- Social audit brings out data for the management to compare its performance with reference to policies and objective of the organization.
- Social audit brings about an encouragement for social concern in the organization.
- Social audit provides data for comparative effectiveness of different types of programmes.
- It helps to earn an organization a good reputation in the society.
- It trains the community on participatory local planning.
- It encourages local democracy.
- It encourages community participation.
- It benefits disadvantaged groups.
- It promotes collective decision-making and sharing responsibilities.
- It develops human resources and social capital.

In India, TISCO (Tata Iron & Steel Co. Ltd.) was the first company to set up an independent social committee and release a comprehensive audit report on its social performance. In July 1980, TISCO released the report of the social audit committee which had gone into the question of whether the company had fulfilled the objectives contained in Clause 3(a) of its Articles of Association regarding its social and moral responsibilities to customers, employees, shareholders, society and local community. However, social audit in private sector is more of a choice than compulsion. As a result, private sector has not shown so much interest in going for social audit.

Cost Audit and Social Audit : Though cost audit is not construed as Social Audit, however, it has in its dimension various social aspects which make it partial Social Audit if not a ful-fledged social audit :

- Cost audit envisages optimal utilization of scarce resources of the country. In this way, cost to society is monitored.

- Cost Audit creates cost consciousness in the organization which ultimately helps to minimize wastages, slippages and judicious usage of national resources.

- Cost Audit helps to fix reasonable prices of products and services. This way it becomes an effective tool for consumer protection on the one hand and securing fair and reasonable margins to the businessmen.

- By creating cost consciousness, the cost audit helps in reducing waste and efficient utilization of national resources.

- Cost audit helps in correct valuation of closing inventory leading to ascertainment of correct profit/ loss. This guards against evasion of income tax by wrong valuation of inventory.

- Cost audit helps in increasing productivity of difficult factors of production like materials, labour, capital, power etc. This results in improvement in national income and better utilization of economic resources.

***Social Audit in Government Sector* :** Social audit as a term was used way back in 1950s. There has been series of activities since then as more and more organizations have become actively involved in the topic. Evolution of team Anna as crusaders against Corruption, Creation of Central Vigilance Commissioner, Right to Information Act, Citizen Charters, and now proposed Jan Lok Pal Bill are all representatives of underlying sense of social audit among common masses and the Government has to bow before the wishes of the people and in the process there is a ray of hope that corruption, red-tapeism, nepotism and favouritism shall give way to a transparent Government. Government on its part is also on the path of streamlining systems and procedures.

***Relevance in Indian Scenario* :** As is well known, funds of schemes sanctioned by Central/State Governments are routinely siphoned off, thus defeating the very purpose of these schemes meant for development of infrastructure as well as people at large. Consequently, weaker sections and needy populace is robbed off their constitutional right to development/ upliftment. There are numerous middlemen between the Government and targeted beneficiaries ranging from politicians, bureaucrats, babus and even village level workers. 'Social Conscience' has been fast eroding due to ignorance/illiteracy of people on the one hand and deep rooted corruption in the system on the other. What to talk of Development Schemes, funds have even been misappropriated out of ex-gratia relief to the widows of war martyrs. This shows moral degradation of our country and calls for fervent need of Social Audit both in private and public sector.

Present Status of Social Audits in India

- Social audit in private sector is still at nascent stage as there is no legal binding for organizations to go for social audit reports.

- Social audit in Government Sector currently is mainly focused on exposing corrupt practices of Government functionaries.

- Of late, social audit has been used to enforce rights of citizens, thanks to Right to Information Act and introduction of Citizen Charters in the Government Offices.

- As there is no punitive action prescribed in the legislation, social audits have not become order of the day and almost all States in India are deficient in carrying out these audits as prescribed in the relevant legislations.

- Recently, the Centre has given the Comptroller and Auditor General a place in social audit of rural job scheme and direct the States to set up directorates to train auditors from civil society. A nominee of CAG would be present in social audits that gram sabhas would conduct twice a year. CAG would also do an annual audit as part of its mandate. Coupled with rigour of CAG's accounting, the exercise would also bring in the new concept of social audit in mainstream.

- The National Advisor Council (NAC) has decided to engage NGOs for conducting social audits as various minority organizations alleged that the development schemes for the community are misused.

- The ministry of Housing and Urban Poverty Alleviation has laid down Social Audit Methodology and guidelines for various schemes sponsored by it.

- Some states have engaged even voluntary organizations/NGOs for conducting social audits of schemes like midday meals, issue of child labour, female foeticide, children's right to education, etc.

Legal framework of Social Audit in India

(i) **73rd Amendment of the Indian Constitution :** The Social Audit in India got a legal status after incorporation of the 73rd Amendment to the Indian Constitution regarding Panchayati Raj Institutions. This Amendment gave powers to gram sabhas to conduct Social Audits and it was with this historic Amendment that the concept of Social Audit gained importance in our country.

(ii) **Mahatma Gandhi National Rural Employment Guarantee Act, 2005 :** Section 17 of MGNREGA mandates Social Audit as :

"The Gram Sabha shall conduct regular social audits of all the projects under the Scheme taken up within the Gram Panchayat.

The Gram Panchayat shall make available all relevant documents including the muster rolls, bills, vouchers, measurement book, copies of sanction orders and other connected books of account and papers to the Gram Sabha for the purpose of conducting the social audit."

(iii) **Right to Information Act, 2005 :** This Act applies to all the States and Union Territories of India except the State of Jammu & Kashmir. However, J&K has also passed Right to Information Act, 2010, on similar lines. The Act has been a milestone in empowering citizens with the right to seek information from the Government on the issues of their interest and welfare.

(iv) **Citizen Charters :** Central Government/State Government Offices have been now displaying citizen charters in their websites as well as in their office premises specifying the ceiling on the time within which a particular work is to be performed by their functionaries. This has enabled citizens to lodge complaints in case the charter is not adhered practically.

To be effective, the social auditor must have the right to :

(i) Seek clarifications from the implementing agency about any decision-making, activity, scheme, income and expenditure incurred by the agency;

(ii) Consider and scrutinize existing schemes and local activities of the agency; and

(iii) Access registers and documents relating to all development activities undertaken by the implementing agency or by any other government department.

This requires transparency in the decision-making and activities of the implementing agencies. In a way, social audit includes measures for enhancing transparency by enforcing the right to information in the planning and implementation of local development activities.

In fact, the Right to Information Act has been promulgated to provide every citizen of India a right to audit Government performance by way of asking questions in this regard.

Appropriate Institutional level for Social Audit : The most appropriate institutional level for social audit is Gram Sabha, which has been given 'watchdog' powers and responsibilities by the Panchayati Raj Acts in most States to supervise and monitor the functioning of panchayat elected representatives and government functionaries, and examine the annual statement of accounts and audit reports. These are implied powers indirectly empowering Gram Sabhas to carry out social audits in addition to other functions. Members of the Gram Sabha and the village panchayat, intermediate panchayats and district panchayats through their representatives, can raise issues of social concern and public interest and demand an explanation.

Future prospects of Social Audit and role of CMAs: It is expected that private sector will be made accountable to society by making Social Cost and Benefit Analysis mandatory for any profitable venture. In Govt. Sector, social audit will have to be strengthened by provision of punitive clause in the already running social schemes like MNREGA, JNNURM, Sarva Shiksha Abhiyan, Rajiv Gandhi Gramin Vidutikaran Yojana, Pradhan Mantri Gram Sadak Yojana, Swarn Jayanti Shahari Rozgar Yojana and Bharat Nirman as well as inbuilt clause of social audit and punitive action in case of default in the schemes to be launched in future. Professionals like Cost Accountants can play a pivotal role in prescribing as well as conducting Social Audits. Even Social Auditing and Reporting Standards may also be framed by CMAs who can well be competent and reliable partners of the Government of India in Social Audits. ❒

Social Audit—A tool for Business Turnaround and Social Inclusion

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"For me every ruler is alien that defies public opinion"

—Mahatma Gandhi

Introduction

Social Audit refers to accounting for the real benefits realized by the stakeholders to whom the government as a part of the development initiatives and the organizations as a part of their social responsibilities are extending social infrastructures — either through financial aid or by setting up the required infrastructure that could bring in a holistic development of the society at large. In other words, it refers to the process of checking the extent to which the benefits extended by the government, its agencies and its participants or organizations operating in its economic setup have been realized by their stake-holders, by setting up necessary control system and monitoring system in place. The need for social audit has been felt since Independence where the government felt the need for ensuring efficient governance practices that can check if the benefits extended by it would reach by properly and completely understanding all the needs of its people, and further to accomplish the aim of understanding, measuring, reporting, and, most importantly, improving, the efficiency and effectiveness of the local governance.

The word social control is always considered as a part of social audit—where social control system acts as an exchequer on the policy implementers, social audit aims at enforcing transparency and accountability for scrutinizing the performance of such policies implemented for the common good of all the stake holders in the society.

Looking at the above we could identify the objective of the social audit as to identify the requirements of the people wherein the economic system operates and extends all the opportunities to the organizations to undertake their business activities and generate profits in commensuration to their efficiency in satisfying such peoples' needs and make such organizations accountable for the holistic development of the society at large, and, in turn, establish control system in place to ensure that all the benefits extended reaches the beneficiaries to whom such benefits are targeted.

The following becomes obvious objectives of the social audit system to come into existence :

- Empowerment of people to ensure that the social harmony and the necessary social infrastructure is created, and ensuring that efficient governance practices are established to see that such benefits created reach the real beneficiaries.
- Ensuring that activities initiated as a part of social responsibility of the organization helps them in accomplishing the objective of extending social aid to the society where they operate and thereby create brand equity among all the stakeholders in such society where the organization is operating
- Integrating with the government and policy-makers for extending the required social and economic infrastructure which the government alone cannot accomplish due to its limitations of resources as a provider for inclusive growth of all the sections of the society
- Continues evaluation of the development programmes initiated so as to ensure that the real cause behind development of such programmes are accomplished, and ensuring necessary correction measures so as to realize optimal performance of such programmes. It would also facilitate in initiating punitive actions against those who would take undue advantages of the programme for their own personal good.

Factors to be considered while establishing efficient social audit system

Establishing a effective social audit system will always ensure the organizations and the policymakers on one hand and the beneficiaries on the other that the objectives behind establishment of social and economic development of their stakeholders are accomplished. This also establishes standards which help in development of the required infrastructure that would provide for inclusive and continuous growth of all the stakeholders operating in such society.

While establishing social audit system the following becomes obvious considerations :

- Establishing the purpose or objective for social audit system in place
- Identifying the stakeholders for such social development programmes initiated
- Establishing the standards for execution of such programmes
- Setting up the performance standards, and control system to check the performance of such programmes
- Setting up necessary evaluation measures to check the performance of such programmes
- Establishing standards for audit, either adopting the standards set as per Social Accountability Standards (SAS) 8 Social Audit, or developing customized audit standards as per the requirements of the organization or institutions performing such audit
- Performing audit on a periodical basis, on continuous basis or on demand by the stakeholders
- Establishing the infrastructure for storing and sharing the outcomes of social audit with all the stakeholders
- Sharing the information with all the stakeholders

Social Audit System a Requirement—Recommendations of Shri Narendra Singh Committee

Comptroller and Auditor General (CAG) of India in order to conduct performance audit on the socio-economic development programmes initiated by the Central and State Governments, established new performance audit guidelines in line with international best practices, with an emphasis on structured planning, that could ensure the policymakers with opportunities to identify governance issues, with closer interaction with the Executive at all stages of the audit process (during audit planning, execution and reporting), and developed new methods for gathering audit evidence such as beneficiary/stakeholder surveys, physical inspections, audio-visual recordings, statistical sampling etc. Further concerns for Accountability due to the shift in devolution of funds towards Panchayati Raj Institutions (PRIs) and Urban Local Bodies (ULBs) has lead to amendment of the 73rd and the 74th Schedule of the Constitution and as per the recommendations of the XI Finance Commission, the Central Government has been entrusted with the responsibility of implementation of various socio-economic developmental schemes through the autonomous agencies operating in the society. To ensure direct transfer of funds to PRIs, ULBs and bringing such fiscal allocations have effectively remained in the hands of the State legislative and administrative accountability loop, local accountability structures—which are either non-existent or are very fragile—are to be strengthened.

In this background, a Task Force on Social Audit1 was convened by CAG during May 2009 under the Chairmanship of Shri Narendra Singh, DAI (LB & AEC), which provided the following guidelines for social audit :

- Social audit to strengthen and add depth to CAG's audits so as to mainstream the process of auditing the social sectoral development programmes, like NRHM, SSA, ARWSP etc.
- There should be a synergy between the social audit and the CAG's audit to ensure that there is compliance in the audits conducted.
- The synergy between the social audit and CAGs audit to be divided into three aspects —inputs for audit planning and implementation, incorporation of findings of social audit, and incorporation of social audit tools in compliance with the performance audits.
- Inputs for social audit planning and implementation process to comprise of social audit reports from civil society groups/Gram Sabhas, for the purpose of assessing the risk and prioritization of units for compliance audits.
- Findings from social audits has to be incorporated in different critical social sector programmes by providing due credit to the social agencies involved in the social audit and promoting such social audit groups to move beyond NREGA so as to cover other critical social sector programmes such as NRHM, SSA, Public Distribution Scheme, Rural Water Supply etc.
- A formal framework of coordination and cooperation has to be devised covering the (i) mutual communication of the audit plans and their synchronization, (ii) audit concerns/objectives in the compliance and performance audits, and (iii) and the dovetailing of their work and reports into our Report may be developed to serve as internal guidelines; while utilizing or extracting from their work as per their own work programmes, the ownership reference must be indicated.
- Development and Incorporation of social audit tools in CAG's compliance and performance audits.
- Sharing of Inspection Reports on Social Sector Programmes—As per the RTI Act, which makes it mandate to disclose all the social audit or the inspection reports to the public on demand.

- The State Government has to setup a separate directorate for social audit, and synergize CAG's audit of social sector programmes in with social audit conducted by such directorate.
- A committee has to be convened to coordinate all the activities of social audit which should constitute of officers from Report Central, Report States and selected AsG to mainstream the social audit and facilitate in gathering information and monitoring plan for synergizing between the civil society organisations and the coordination committee responsible for social audit.

Social Audit and impact on Economic Building— Some evidences

Evaluation of few of the research works in the area of social audit helps us to understand how the concept of social audit is taking its importance, especially in light of the developmental initiatives taken up by the government as a part of its objective to provide for inclusive growth of the economy. In this back-ground few selected research works are evaluated, summarized, and presented below for appreciating the need for social audit.

Pieters, Janneke (2010) in his study based on an extended Social Accounting Matrix (SAM) observed that the sectoral growth in India has exhibited its effect inequally. It observed that the educational level and the employment exhibits an improved link between sectoral expansion and household income in the society. Further, the study showed that it is only the agricultural growth which is reducing the inequality, while growth in heavy manufacturing and services sectors has seen raising inequalities, and looking at the India's current growth pattern, inequality is likely to increase in future too.

Bhatia, Ramesh et al (2007) in their study showed that the developmental initiatives of the government by undertaking infrastructure development project leads to direct and indirect economic impacts, inter-industry linkage, leading to increased demand for outputs of other sectors, and consumption-induced impacts arising out of increases in income and wages generated by the direct outputs of such projects.

Anchalia, Manju M. and D'ambruoso, Lucia (2011) in their study describe how internal audit system developed for quality enhancement of the health care services designed by the Gujarat Government towards Surgical Site Infections (SSIs) helped them in continuously identifying, and responding to the problems of sustaining quality of health care in facilities that were necessary, and concluded that problems of SSIs were largely preventable, especially with the help of careful implementation of necessary audit measures.

Yesudian (2007), in his review on various poverty alleviation programmes, highlighted the importance of social audit in the post-economic reform era, and showed how setting up parameters such as utilization of allocated funds, change in poverty level, employment generation and number or proportion of beneficiaries etc. would help to go beyond evaluating the economic benefit and analyze the social impact of these programmes on the communities where the poor live, and how involvement of the community, especially the poor, would lead to better achievement of the goals of the programmes.

Sugan, C et al (2007) in their paper portray how social responsibility initiated by the organization and evaluations of performance of such programmes by developing necessary accounting measures will help the efficiency of management. Further, this study exhibits the importance of social responsibility of the organization in line with its obligations towards socio-economic and socio-human responsibilities. This study also shows how the scope of corporate social responsibility encompasses not only economic well-being but also the human aspects of life.

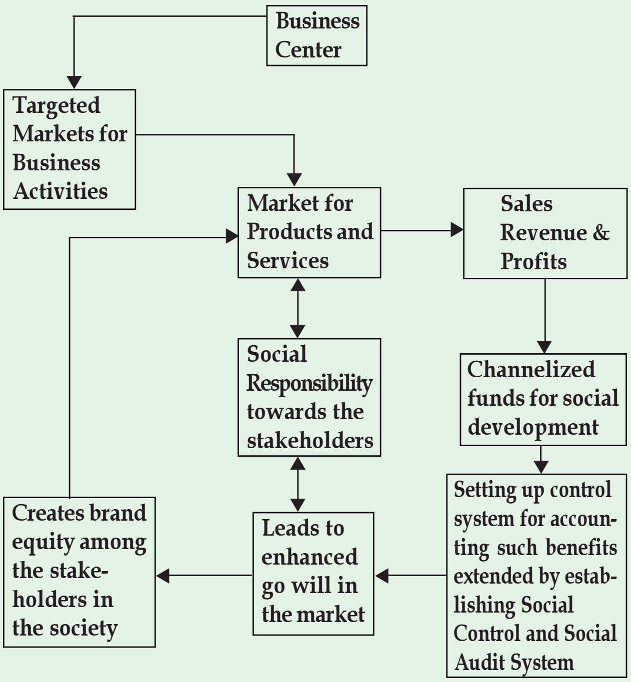
Batra, G S (1996) in his study argues that social auditing is playing a key role due to increased awareness among corporate sectors that every enterprise should contribute towards social goals. Highlighting an increased expenditure by the organizations towards the social benefits, the researcher claims that a regular audit of the social accounts on the basis of which the comparative social performance of the corporate sector are to be evaluated calls the need for development of social audit system, as it extends the activities relating to the employees, the environment, the society and its products. And explains that a useful social reporting framework has to be developed to ensure the effectiveness of the social audit programme in the corporate sector can contribute positively to society at large.

Thomas, Kurian (2005) highlights social audit as a principle for creating universal value, identifying the pillars for Social Audit, as socio cultural, administrative, legal and democratic system which acts as the foundation for operationalising Social Audit. Further, it exhibits that Social Audit process acts as a means for social engagement, transparency and communication of information that leads to greater accountability of decision-makers, representatives, managers and officials. The underlying ideas are directly linked to concepts of democracy and participation. The application of Social Audit at the village level holds tremendous potential for contributing to good local governance and increased transparency and accountability of the local bodies.

Social Audit and Business Value Creation—A model for business turnaround

An evaluation of the above studies provides an insight into the need for social audit for accounting the value created by the organization to the targeted stakeholders/beneficiaries by undertaking a number of developmental activities as a part of their social responsibility. The following model developed exhibits how social developmental activities initiated by the organization and development of necessary audit/ control measures would ensure the organization with the benefits of enhanced brand value and long term sustained business growth.

Social Audit and Enhanced Organizations Brand Equity



A close observation of the above model discloses :

- An organization commitment towards development of their stakeholders with whom they are performing their business and accountability towards them would enhance the equity in the society and thereby increases the trading potential of the organization
- Mere performance of the activities as a part of social responsibility of the organization is not enough by the organization, the organization will have to ensure that necessary control measures have to be developed by the organization to ensure that the benefits extended reaches the real beneficiaries and accomplish the cause behind development of such programmes
- A effective compliance has to be created between the functional audit and the social audit to check the value created by the organizations initiative for social development on the organization's brand value
- A synergy has to be created between the policy maker initiatives and the organization's development schemes so that there is a perfect compliance between various programmes targeted towards the development of the society
- A effective social audit should ensure that there is efficient governance practices in place and the stake holders are provided with access to the required outcomes of social audit which could help them to evaluate the extent of value created by such programmes in the society and the realized value from the targeted beneficiary groups
- Social responsibility of the organization is not confined to mere extension of financial aid but go beyond and find out the level of changes that such programmes have brought in the society and any deviations from the targeted objectives have to be corrected in a timely manner
- These aspects will ensure that an organization would be creating a sound brand equity in the market and which, in turn, facilitate's it in creating long term sustained growth and help it to earn above normal returns from its business.

Benefits of Social Audit to the society at large

Social Audit ensure the society with the following benefits at large :

- Involvement of people in developmental activities ensures that money is spent where it is actually needed.
- Reduction of wastages of economic and social resources.
- Reduction in corruption, and red-tapeism and ensures that the targeted beneficiaries realize the expected benefits from the programmes initiated towards their development.
- Awareness among people would ensure them with the benefits and the realize value from the programmes are to the optimal as the people are in a position to rationally utilize the same.
- Promotes integrity and a sense of community among people, which is a mandatory expectation of the society from the policymakers as well as the organizations which operate in their environment.
- Social audit programs also ensure the society with enhanced or improved standard of living and effective governance practices will ensure quality of services.

Conclusion

Social Audit is no more a mere confinement in the hands of policymakers or the government, to check the realized benefits of their beneficiaries, it has diversified into the scope to include every institution which takes responsibility for providing social harmony and growth. Where social audit conducted by the government ensures the check of misuse of funds or benefits, social audit by the corporates will have to ensure that the social development activities initiated by them as a part of social responsibility is taken to the right beneficiaries group that can provide for inclusive growth of the society, and in turn, ensure them with enhanced brand equity in the society that can provide them with opportunities for sustained growth and development. This also requires proper integration of functional audit with social audit that can synergize their performance by taking necessary corrective measures as and when required so as to ensure that the objective of their social responsibilities are accomplished with less deviation as far as possible. ❐

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Date : 19th June, 2012

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Social Audit : How Do We Analyze it?

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Introduction

We have witnessed a profound transformation in regulatory regimes in recent decades that aim to shape the social and environmental performance of business enterprises. There was a bolstering up of environmental and social issues in many countries in 1970s that caused, interalia, to improve the corporate performance on those fronts. The newly emerged concept of thinking and policies took effect in 1980s in order to encourage more stringent regulatory approach keeping the corporate social responsibility (CSR) agenda as a part of their self-regulatory and voluntary mechanism. CSR generally refers to a range of initiatives adopted by companies, business associations, and so called multi-stakeholders entities that aim to promote ethical corporate behaviour and minimize the negative impacts of business activity on society and the environment (Peter Utting). The concept of ''Social Audit'' originated from the concept of CSR followed by corporate entities around the globe, where Social Audit refers to the audit of Social Responsibility role performed by a corporate entity. The concept of CSR type initiatives had involved not only some of the world's largest TNCs (Transnational Corporations) whose environmental and labour practices have come under greater scrutiny, but also large national firms and small and medium sized enterprises that form part of global value chains. In 1992, at the Rio Earth Summit, some of the world's leading multinational corporations had bespoken their commitment to changing course and to greening their operations wilfully—thereby heavily promoted the CSR as a primary means to ensure that the firms act in sustainable manner. In this modern era of industrialization, multinational corporations are troubled by scandals like the cases such as Enron or WorldCom etc. These scandals not only changed the shape of the globalisation but also immensely affected the livelihood of the people who were by and large associated with them. Social aspects of corporations must be monitored according to the concept of 'corporate accountability'.

Concept of Social Audit

Social audit forces organizations more socially accountable for the objectives they declare. Social audit does not have the implication of not examining the financial resources. On the other hand, the major concern is that how the organisations have utilized their resources in order to fulfill their social objective commitments. It also reviews the betterment of the mobilization of resources that were used to obtain those objectives. 'Social Audit may be defined as an examination of the social performance of a business enterprise towards the society. Social audit is conducted to assess how much is the contribution of business enterprise to the society. So, Social Audit is one which is done by an independent person in order to examine the expenditure incurred by the business enterprise towards social activities as well as the monetary value of the social benefits emerged out of such activities and also how entities are discouraging their social obligations for the protection of the environment-pollution-free environment' (Basu, B. K.). Social audit may be referred as being at the extreme end of the range of audit functions. Audit functions have grown and evolved over the centuries, starting from the most ancient kind concerned mainly with the detection of frauds known as vigilance audit. In the order of evolution, regularity audit, propriety audit, value for money audit, performance audit and, at last, social audit emerged. Social accounting, on the other hand, involves the process which an organization uses to collect, interpret and analyze the quantitative and qualitative data or information to prepare the ground work for social or environmental audit over a specific period of time. However, a very little may be discovered about the social accountability of the firm after a rigorous and honest financial audit programme. A mere scrutiny of the internal records can give no such information about the social accountability of the firm. The experience of the people of the organization intended to be served by the firm must be the part of the social audit. Corporate ethics plays an important role in ensuring good corporate governance and better corporate management. Corporate ethics and corporate governance support corporate management. Ethical lapses and dilemmas are one of the root causes of many problems that corporate management is facing today. Ethics can be defined broadly as the study of what is right or good for human beings. It attempts to determine what people ought to do and what goals they should pursue. Business ethics, as a branch of applied ethics, is the study and determination of what is right and good in business settings and the society. Therefore, from ethical point of view, organisations must operate their activities in such a way that the ultimate benefit can reach the society at large. In the context of social audit analysis let us now show the relationship between the social and financial accounting/auditing in the following brief format :

Relation between Financial and Social Accounting/ Audit/Report :

Area of Operation	Financial	Social
Accounting Nature	Financial.	Social (including Environmental).
Unit of Measurement	Monetary.	Various Indicators.
Prepared for	Management, Shareholders and others.	Stakeholders and others.
Report Type (in general)	Profit & Loss Statement, Balance Sheet and other statements showing the analysis of changes like Fund Flow Statement, Cash Flow Statement etc.	Analysis of the changes from the previous period regarding human capabilities within or associated to the organization. It also analyses the social and environmental impact of its operation and goods or services.
Reporting Format	Standards available, like IFRS or Accounting Standards.	Defined by the Stakeholders.
Term of Report	Based on accounting period.	Accounting period and beyond.
Uses	In order to compare the performance with the other better investment opportunities and also to evaluate the performance of the management.	Examining the impacts on local, global, social and environmental aspects and the changes thereof over a period of time.
Stressed on	Accounting of Financial Resources.	Social and its related applied sciences.
Auditor Controlled by	Independent verification of financial resources through the reports prepared by the management.	Independent verification of social reports.
Results	Shareholders and Management.	Stakeholders independently selected by their constituents.
	Professional body such as ICAI and Government Stakeholders.	Stakeholders.
	Improvement of management functions and decisions and public confidence.	Improvement of quality of life, protection of environment from various ill factors and providing operational sustainability.

make it more stringent and effective. Few of them are listed :

Principle of Transparency

There must be absolute transparency so far as the process of administration and decision-making is concerned. There must be some mechanism so that access to all the relevant information to people, directly or indirectly associated to the relevant entity, is confirmed.

Principle of Participation

Social audit will enable company managements to remember their social obligations. The success of the organizations in reaching the social achievements heavily depends on the people within or outside the organizations who can share their experiences—whether as an individual or as a group. Therefore, there must be some participation from them to make the social audit report justified.

Principles of Social Audit

As previously mentioned that social audit consists of examining and verifying the financial resource mobilizations into the channels of social objectives, it is necessarily based on some basic principles which

Principle of Accountability

The organization must be responsible to public for immediate answer regarding all relevant social issues for which they may be held accountable. Some entities, instead of going for social audit, include social achievements in the annual report. Since the organization is established for the purpose of profit-making, achieving social obligations will make it more socially accepted—which would be helpful for its future activities.

Principle of Responsibility

The promotion of environmental responsibility amongst transnational corporations (TNCs) has become an important topic of debate in recent years. (Clapp, J). No standard or widely accepted procedure for social audit has yet been devised. Hence voluntary activities are required to understand the implication of social audit on the part of the organization. The responsibility lies on the corporations which must be realized for the betterment of the stakeholders.

Principle of Comparison

This implies that social audit must provide such mechanism so that comparison of the performance can be made against appropriate benchmark each year with other companies within or outside the industry. This will facilitate the organization to make alterations of odd deviations, if any, arose out of inspection and comparison with the external entity.

Methodology or Procedure of Social Audit

Social audit is considered to be a flexible mechanism. It must also have the advantage of comparability with the results obtained in the previous period. The decision to conduct social audit must be internal and voluntarily taken up. This would help in improving the image of an enterprise as a socially responsible one. It is to remember that the organization must identify or select the Auditor/Auditors who have (i) professional expertise in the field of Social Audit, and (ii) no association directly or indirectly with the relevant entity.

There are six steps which must be accomplished in the process of social audit :

Step 1: Preparation of Groundwork or Gathering Information

Being cognizant of the key principles of the social audit, the audit team must make a short list of the indicators or the core values or the social obligatory areas that the company is supposed to contribute. Then the activities with the objectives of the company are matched with the industrial practices.

Step 2 : Determining the Audit Parameter and Identifying the Stakeholders

After identifying the key societal objectives, descriptive analysis is required to be made about such issues. For better understanding of audit boundaries, social objectives must be elaborated. With outset of that, statements related to various aspects such as purpose, objectives, key issues and activities for social audit are prepared. The next task is to identify key stakeholders with the support of such elaborated analysis. While identifying the key stakeholders it is to be remembered that those people who are, directly or indirectly, affected by the activities of the organization that fall with the parameter of the social objectives so declared by the entity, to be included.

Step 3 : Preparation of Books of Social Accounts

This includes the extracting the information regarding the performance indicators for social accounting after verifying the existing usable records and identifying the additional data to be collected and chalking out the plans for such information gathering. Stakeholders may be asked for any consultation and information. There must be provided a monitoring mechanism of social accounting activities.

Step 4 : Use of Social Accounts for the Purpose of Verification

Social accounts are prepared with the use of existing information, data and collective views of the stakeholders. Matching with the declared social obligation, activities and core values identification of key issues is accomplished.

Step 5 : Interpretation and Comment

After verification of data the auditor/auditors must assess the interpretation and proceed to make comment in the report about the quality of the social accounting. Revision must be preceded by accordance with the auditor's recommendations. The social auditors are also accountable for the procurement of information from the stakeholders regarding the implementation of programme and actual benefit accrued to them. The consolidated report on social audit must be distributed to stakeholders in due concern.

Step 6: Feedback and Review

The whole social audit procedure must be accompanied with a feedback or follow-up action. Organizations are controlled by various legislations and for the purpose of upholding corporate ethics those should never be violated. However, there is no such legislation that compels the organization to lay down social audit. Therefore, institutionalization of the process for the sake of the stakeholders and feedback from them form a formidable part of social accounting and auditing. Review mechanism on the basis of legislation, administrative functions and programme towards social benefits are also essential for successful implementation of social audit.

However, the success of the social audit depends on the selection of various indicators for the collection of data, selection of stakeholders and identification of core societal values. It is to be remembered that gathering information should not be time-consuming and cost-effective; otherwise the audit procedure will be delayed and costly. Identification of socio-economic indicators, therefore, is important. It must be based on according to the industrial standards and available information. They should be based on the following features :

Source : Learning from Clients: Assessment Tools for Microfinance Practitioners, SEEP Network (January, 2000)

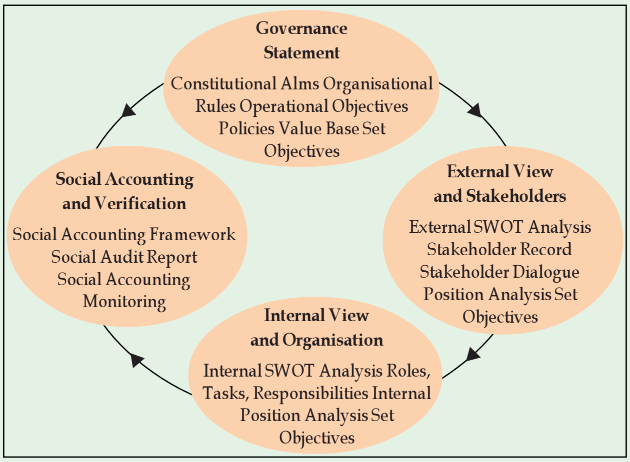
- **Valid** – measure what they are intended to measure and capture effects due to the program intervention rather than external factors;
- **Reliable** – verifiable and objective so that if measured at different times or places or with different people, the conclusions would be the same;
- **Relevant** – directly linked to the objectives of the program intervention;
- **Technically feasible** – capable of being assessed and measured;
- **Usable** – the indicator should be understandable and ideally provide useful information to assess program performance and for decision-making;
- **Sensitive** – capable of demonstrating changes and capturing change in the outcome of interest (national per capita income is unlikely to be sensitive to the effects of a single intervention)
- **Timely** – possible to collect relatively quickly;

Cost-effective – the information provided by the indicator is worth the cost to collect, process, and analyze; and

- **Ethical** – collection and use of the indicator is acceptable to those providing the information.

However, Freer Spreckley (2008) in the book ''Social Audit Toolkit'' (4th edition) had stated the structure of social audit in a cyclical format.

The format is depicted as :



Source : ''Social Audit Toolkit (4th Edition),'' Freer Spreckley, Local Livelihoods Ltd, page. 18

Case Studies

Audit is to be considered as a social science. The overwhelming demand in context of business organizations having social obligation gave birth to social audit. However, at the first pace of its development, it was just a mere idea and that was institutionalized through the concept of corporate social responsibility. On March 30, 1995, the first conference on social audit was held at Edinburgh, organized by the New Economic Foundation (NEF). The conference was followed by a workshop where Social Audit was defined ''as the process whereby an enterprise measures and reports on its performance in meeting its declared social, community or environmental objectives''. Social Accounting was defined as ''the means whereby the information can be collected in order to measure social, community or environmental benefit'' (Turnbull, Shann). The concept of social audit was, however, pioneered by Charles Medawar long back in 1972. The concept was merely confined within the idea of medicine policy, drug safety and other concerning matters of corporate and professional accountability. The safety of the people within the organization or people living nearby the location of it should be properly addressed in due concern by the organization. The Bhopal Gas Tragedy shocked our nation in 1984. The case is described :

The Bhopal Gas Tragedy

A major accident occurred in Bhopal in 1984 at a Union Carbide plant in which toxic gas was released, injuring and killing thousands of people. On December 3, 1984, a storage tank at a pesticide plant in Bhopal began to leak. It continued a deadly chemical called methylisocyanate (MIC). MIC is used to make the pesticide Sevin. As the MIC came out of the tank, it changed into a gas. Plant workers were unable to stop the leak or neutralize the gas. By the time the tank emptied its contents, the poisonous gas had spread over 25 square miles (65 square kilometers). The gas that leaked from the tank killed 8,000 residents of Bhopal. An additional 300,000 people suffered damage to their eyes, brains, kidneys, intestines, or livers.

As a social science social audit has huge prospects in future for the betterment of the social community. Social Audit was carried out by the trade unions, local government authorities, and private companies in the European nations in mid-1970s. The idea was that the impact of corporate activities such as relocation of a unit, on the jobs, community or the environment was measured and termed as social audit. Corporate groups often used the term social audit as a tool in their report and gathered feedback from the community. In India, Tata Iron and Steel Company (TISCO) introduced the social audit element in the report in July 1980. They presented a Report on Social Audit Committee to show their accomplishment of social obligations. However, right to information movement by Mazdoor Kisaan Shatkti Sangathan (MKSS) paved the path to fight for accessing the information at the government level. The case is cited below :

Mazdoor Kisaan Shatkti Sangathan (MKSS) Case Study

MKSS was founded in 1990 in one of the most rural and backward places of the State of Rajasthan where the literacy rate of both men and women were very poor (below 30%). They operated with the slogan 'Equality and Justice for all' and became internationally recognized for their right to know information movements. MKSS's members were mostly people below the poverty level such as marginal farmers or landless labours and other lower socio-economic classes. They fought a long battle for ensuring the payment of minimum wages in the local administration and got some success when the Central Government asked the State Government to pay wages due to their workers. MKSS also fought to bring in transparency and accountability in the local administrations. They often organized strikes (Dharnas) to get better social justice. The public demonstration organized by the MKSS and also the participation in the social audit by the government officials—known as Public Hearings (jansunwais)—were the most successful campaign ever in the history of social structure in India. Local people and government official came face to face and shared views regarding the social justice and tried to resolve such issues derived due to inconsistencies, if any, between the government records and the experience of the people working in the government projects. People gathered at the Junsunwais could raise their voices against the corrupt administrative officials and asked to bring transparencies in the local administration. MKSS achieved global recognition for their fight against corruption for more than a decade. It was their right to information in the local administration for which they insisted to organize campaigns and thereby institutionalized the social audit process. Their voices reached across the State of Rajasthan and, with the moral support from the people of Rajasthan, MKSS insisted upon the right to information; the Rajasthan State Right to Information Act was finally enacted in May 2000 after a decade from the start of their movements.

Aventis-StarLink (US) Case Study

In 2000, environmental groups in U.S.A. discovered that an agricultural biotech company Aventis—which was taken over by Bayer CorpScience in 2002—marketed StarLink corn that had contaminated the food supply in U.S. as well as at the international market with an unapproved genetically modified organism. Environmental Protection Agency (E.P.A.), U.S., had given permit to Aventis to market the StarLink seed for animal food only and not for human uses due to the allergenic protein, namely Cry9C, found in StarLink.The responsibility of the Aventis was to ensure that farmers must be aware of the restrictions and to supply them the set terms and regulations regarding its plantation and handling of StarLink seed. But it was discovered that Aventis had failed to put restrictions on the use of StarLink corn and bulk of maize as well as processed food shipments were exported to international countries including Japan, Korea, Mexico. However, it was claimed by Aventis that it had agreements signed with the farmers for the identification of restricted corn and labeled the bags contained it. But when the contamination news spread out it was revealed that many farmers did not have any agreements with Aventis and were not aware of such restrictions. According to Bratspies : ''Other than the ambiguous seed tag, Aventis seems to have taken no steps to ensure that StarLink was grown in accordance with its registration requirements'' (Bratspies 2003, pp.619). One day later the news was brought to the public. Aventis officially commented in the Washington Post that ''We have difficulty imagining how our corn could end up in the human food supply ... We have in place a stewardship program that is focused on keeping the corn in the proper channels, and it has had the full participation of the corn industry. We have every indication it is working well.'' (Kaufman 2000). Since the registration for StarLink was for non-human uses it was insisted by the E.P.A., U.S., that Aventis should voluntarily cancel such registration. Aventis, however, after the confirmation of the extent of contamination, did cancel its registration for StarLink. Not being fined by the US Government, however, Aventis was asked to pay for the expenses incurred for withdrawing back all the shipments of StarLink maize as well as the processed food containing such corn. Settlements were made with the farmers and suppliers for the loss they have incurred as a result of such actions. The US government took steps to hold the company within the country U.S. only. But the traces of the protein were also found in Japan, Korea, in Central America, and Africa. At the United Nations (UN) in 2001, environmental groups urged to expel Aventis from the Global Compact as a consequence of such incident. It was argued and the company was criticized that despite having agreements with the farmers the company failed to comply with rules and regulations as prescribed by the E.P.A., U.S. However, UN was not in favour of withdrawing such Global Compact with Aventis. In 2002, Bayer CropScience purchased Aventis.

Conclusion

After the global financial meltdown started panicking the industrial houses in past few years exhibits serious concern for the financial health and the governments of every nation across the globe are trying to resolve the situations by pushing the economy to go for further reformation. If the public undertakings lose their subsidies being provided by the government then their services to the domestic people would be adversely affected. Therefore, the people who expect to receive maximum social benefits from at least public organizations may come to an end. Financial crisis at Europe, particularly in Greece, have already started to make impacts on our economy. Now one cannot literally expect the private undertakings to contribute to the society voluntarily to a huge extent with limited resources due to global meltdown. Hence social obligations of the enterprises must be closely monitored and, therefore, the need for social audit has reached at its peak/ultimate stage.

Corporate responsibility to society—also named as 'corporate citizenship''—is now under a threatening situation. The concept of ''Profiteering is the only bottomline'' of the business got a new shape in the present financial crisis in most of the capitalist countries. With lack of widely accepted guidance the implementation of CSR programme has faced lot of problems. The World Bank in its study ''Implementation mechanisms for codes of conduct'', in November 2004, came out with the following conclusion :

''The study finds some common problems with CSR implementation that transcend all industries. These issues include :

- A lack of adequate code convergence
- The need for more multistakeholder initiatives
- Disagreements over how far down the supply chain companies should monitor
- Insufficient transparency with respect to internal and external reporting
- Too little standardization in the training of monitors
- Inadequate education of workers regarding their CSR-related rights
- The failure to focus on the root causes of non-implementation''.

(François Beaujolin (2008), ''Beyond Social Auditing'', FDHT page, 2)

Organizations which want to survive in, and be benefited, by the market must make balance between its operational activities (financial nature) and social objectives. Social audit offers a lot of promising benefits such as building up good relations with people including cordial industrial relations and employment in general, product relations, environmental relations and, above all, it contributes to national economic growth through expansion and employment generation. ❐

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Social Audit : A Gap Analysis Technique

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Introduction

Archaeological survey has revealed that the gigantic Great Pyramid of Giza was built by more than ten thousand skilled labours using materials like quarried stones and gypsum or lime-stone. It is really a great contribution to the world of Archeology and Heritage. But there is neither accountability nor transparency. The person who might have dared to ask regarding this activity certainly would have been beheaded by the Pharaoh. There was absolute monarchy. And the action will depend upon the will of the monarch. And he is not answerable to anybody.

But there is gradual change in the form of Governance from Monarchy to the present system of Democracy. And the civilizations have witnessed the evolution in system. Democracy is rule by the people through their nominees representing in the Legislature. Though the system of Democracy has faced criticism by many philosophers like Plato still it is believed to be the best system of Governance. The peoples' participation is ensured through the representative and hence they are answerable for their act for which they are sent.

Whatever be the system of Governance, money of citizens/denizens in the shape tax goes to the system and comes back to get utilized in mass development activities. And being living in Peoples' Reign there is need to maintain transparency. Hence, there has been a drastic change in level of transparency and accountability.

And in this democratic form of Governance, there comes the concept of empowering special units which we termed as ''Panchayats or Gram Sabha''. Social Audit is a tool in the hand of Gram Sabha to promote transparency in the system by sharing information of financial as well as non-financial nature with the people and get them involve people in it.

In a report submitted by the Vision Foundation to the Planning Commission, Government of India, New Delhi, Social Audit has been defined as ''Social Audit is a process in which, details of the resource, financial and non-financial, used by public agencies for development initiatives are shared with the people, often through a public platform. Social Audits allow people to enforce accountability and transparency, providing the ultimate users an opportunity to scrutinize development initiatives.'' This may be considered as a curtailed definition of Social Audit. Simply Social Audit is a process to maintain transparency in the system and to make the authorities more accountable towards general people.

Social Audits are mainly conducted by Civil Societies or Intellectual Communities. As the intelligence level of a society increases, the more demand of social audit is found. As, they seek more accountability and transparency in the governance. The intellectual mass always wants to know whether the money that the citizens pay to the nation in shape of tax is being utilized properly or not. The public departments move the funds to the last unit (where execution of work happens). Then the last unit, which itself is a public department, executes the work. Hence the fund provided has been utilized properly or not is required to be analyzed which is done by different audits. These all may be collectively known as Social Audit without narrowing the term.

Swaraj and Social Audit

The dream Swaraj was conceived by Tilak, Mahatma Gandhi and others. This Swaraj system of Governance is less inclined towards the hierarchical system of Governance; rather it laid more emphasis on making the last functioning unit more powerful by decentralizing the power. This Swaraj itself brings the concept of Social Audit as an integral part. As every independent unit requires to work out on gap analysis between sanctioned and actual. The same must be communicated to every individual person of the unit. Still a long way to go to achieve Swaraj but the demand of Social Audit is high. Because of the need of maintaining transparency in a democratic society.

Legal Mandate

The legal mandate is from Article 19, i.e. Freedom of Speech and Expression which includes right to information under it. Being Social Audit is sharing of information, hence it may be considered to be coming under the Fundamental Rights. So Social Audit, being considered under any guideline, may be considered to be a proactive step of Government to ensure its role, to provide the said fundamental rights. From the above we can find about half of the Constitutional mandate to Social Audit.

Article 40 of our Constitution—when read with its wide connotations—will give the second half legal backing. Article 40—''Organisation of village Panchayats—the State shall take steps to organize village Panchayats and endow them with such powers and authority as may be necessary to enable them to function as units of self-government''. That means to frame Panchayats is not the only duty of the State but to make it as an independent unit is the responsibility of the State. It ensures that they must know regarding all financial and non-financial matters of execution at that level. They must analyze the gap (if any) between sanctioned and actual. In this context Social Audit is a part meant for complete fulfilment of Article 40. With this the duty to cross-check the efficiency of the system lies with the same unit and, hence, independence of unit as per Article 40 is attained. This Article 40 may be treated as an outcome of dream of Mahatma Gandhi about Swaraj. He conceived the dream to make every village self-sufficient and capable to handle its own affairs.

The 73rd Amendment to our Constitution was a historic move. The same has brought effectiveness in Panchayat Raj institutions and had paved the way to make these panchayats independent units. Besides, the Gram Sabha was empowered to conduct social audits after this amendment. This amendment to the Constitution has started the process leading to Swaraj.

Right to Information Act to execution of Social Audit

While discussing about Social Audit, we cannot neglect the role of Right to Information in Urban Area. MKSS's struggle for Right to Information has rightly provided a tool in the hand of urban population to conduct Social Audit. Utilizing this act (Right to Information Act, 2005) not only information can be obtained but documents available to public will be scrutinized by the general public. This Act serves fulfilment of first part of the Concept of Social Audit, i.e. to share information with public. But the second part is crucial as well as complex.

The second part may be called methodologies to conduct Social Audit. It involves —

(i) Arranging the data
(ii) Analysis of data
(iii) Comparison of the Data with Standard (if any)
(iv) Ensure compliance required has been met.
(v) Find a forum to critically analyze data.
(vi) Sharing the information with intellectual community of the locality.
(vii) Obtain actual information from local individual and compare it with the information obtained.
(viii) Communication of Deviation to appropriate authority,
(ix) To seek reasons on such deviation.
(x) To draw logical conclusion on deviation with reference to reasons on deviation (if any) obtained.
(xi) Finally, to find a suitable Authority to whom complaint can be made (if discrepancies found).

A Practical Approach to a Social Audit

The practical feasibility of Social Audit has always been questioned. It is to be implemented by Gram Sabha. And the documents are to be scrutinized by the people of the locality. So everywhere it is not possible to do Social Audit as there is a need of intellectual human capital as well as impartial behavior. Hence we don't have much referred examples of such Social Audit except a few which are conducted by organization having high value and filled with huge pool of talent.

Though a long period has elapsed after independence our mentality has not got optimal independence and is not free from superiority or inferiority complex. This is playing a vital hindrance on the way of Social Audit. But this problem will have no more relevance when we will have a pool of educated mass in every village. Besides education the mass must be aware of the fundamental rights conferred by the Constitution of India. And this process will take pretty much time as we are much behind in literacy rate. So in near future if cent percent decentralization happens there will be practical crisis to conduct Social Audit. However, there is a growing demand by the Civil Society to promote education which can only act as catalyst in the process.

At present scenario, people are unaware of the tits and bits of social audit but they do it by their way. They provide the fractured information to the media. Then media plays a vital role to pass the information to the community and make them aware. This also passes a message to the concerned authority. And finally, the goal is achieved by way of inquiry.

One more practical concern is harassment and injury suffered by people who are right-conscious and raised their voice against corruption. To tackle this crisis, intellectuals have advocated about Whistle

Blower's Policy. RTI Activists or Social Activists, working in the interest of society, are suffering in absence of suitable whistle blower's policy. After the enactment of Right to Information a huge number of activists have been killed. Before that too, there have been a huge number of deaths either reported or unreported, of people who fight against a corrupt practices. They all tried to bring the fact before the public.

Examples of such activists who suffered (Reference No. 5)

Sl No.	Name of Activist	Particulars
1	**Nadeem Shaiyed**	He had filed 40 numbers of RTI with Ahmedabad Municipal Corporation questioning cow-slaughtering and beef trading.
2.	**Shehla Masood**	She had raised question by filing RTI about wild life conservation and forest conservation.
3.	**Niyamat Ansari**	He has exposed corruption in NREGA.
4.	**Ramdas Ghadegavkar**	He raised voice against corruption in public distribution system and sand mafia in Nanded of Maharasthra.
5.	Amit Jetha	He was fighting against the Forest Department and also filed PIL against illegal mining at Gir Forest.

If analysis will be made, after independence we will find lakhs of activist being killed for their voice against the corrupt practice. And yet after 65 years of independence we are devoid of a policy to protect such Whistle Blowers. After a long period we have got a draft bill in 2010 which is yet to get accent.

Objectives & Scope of Social Audit

The main objective of social audit is to find the gap between the actual and sanctioned. Besides this, there is need to find the efficiency, completeness, statutory requirements etc. Propriety Audit is another key concern of Social Audit. One of the inner objective of Social Audit is to bring social involvement in the process which is really essential to make the unit self-sustainable. It also should aim to find whether required compliance has been met by the executing authority. Besides, all factors impeding the way of any work must be analyzed. And measures must be proposed in the forum to remove such hindrances.

The points where Social Audit must concentrate are :

(i) **Community Participation**—The undertaken work must be ensured with participation of every strata of local community.

(ii) **Ethical Practice**—Ethical practice must be followed without destroying the value and interest of the Society.

(iii) **Discriminatory Event**—It must be ensured that no discrimination during the execution has been happened in terms of caste, gender, religion, colour etc.

(iv) **Environmental Focus**—The policy must aim to minimize harmful effect to the environment.

(v) **Compliances**—The compliance of rules or legal obligations must be ensured.

(vi) **Event Completion**—Identification of hindrance and suggestion of measures.

(vii) **Financial Comparison**—Financial data must be compared.

One more crucial event where the Social Audit should focus in the present period is to guide people of the community to carry out Social Audit. They must be educated properly to conduct Social Audit.

Social Audit in NREGA

NREGA (National Rural Employment Guaranteed Act) is one Gram Sabha oriented concept. And it has laid guidelines to share information and also empowered to conduct Social Audit. Along with this the supervision of conduct of Social Audit has been laid over the Programme Officer at Block Level. Besides, a Commissioner be appointed by the State who will ensure the function of social audit.

The guidelines have emphasized Social Audit of top priority and declared this act as a ''Public Act'' which had expressed its concern of sharing information proactively. And Social Audit has been considered as a continuous vigilant process to be maintained to ensure accountability. Starting from allotment of Job-Cards to completion of Work including payment, dues etc are included under Social Audit's Purview.

In this act a detailed guideline has been provided to conduct Social Audit. The responsibility has been fixed and demarcated. A detailed questionnaire has been prepared to conduct the audit. Besides, the guidelines advocated publicizing the conduct of Social Audit in a prudent way.

National Social Audit

In Indian context we have a body called Public Accounts Committee. This committee is constituted with not more than 22 members (15 from Lok Sabha) every year. This body acts as National Social Auditor by examining the accounts related to sum granted by the Parliament to meet the expenditure of the Government of India, Annual Finance Accounts of GOI, and reports of CAG.

Task Group on Social Audit

The task force constituted by Comptroller and Auditor General in October 2009 as recommended by the XXIV Conference of Accountants General. It has submitted its report in January 2010 to the Comptroller and Auditor General in which it has made many recommendations. And it explicitly stated that Social Audit should be given emphasis in all social sector programmes. The task group in its recommendation has advocated in favour of creating synergy between social audit and CAG audit. Even further, the group has urged to incorporate social audit tools in CAG Compliance and Performance Audit. It has also asked the IAAD to develop training modules in different local languages to inculcate the procedure of Social Audit in Civil Societies, VOs, NGOs etc.

Conclusion

Social Audit plays a vital role in transparency and accountability but it has still miles to go. Its present form of documentation is still not considered to be consistent documentary evidence. Besides, the community itself is not self-sufficient to conduct a Social Audit and it requires a participation of NGOs or VOs or external agency to carry out the said audit. It is badly essential to inculcate the concept of Social Audit within every target communities and make them self-sufficient to conduct Social Audits.

Social Audit is a part of Swaraj. When the whole concept of Swaraj will be considered, then the target group will design the project, evaluate the project, supervise execution, analyze the gap, and, finally, suggest measures. More or less, they will associate themselves completely in it. And hence the gap will be completely minimized. This will develop a Social Transparency Regime.

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The torch bearers of our Profession

Krishna Iyer is a Managing Director and Chief Financial Officer of Bank of America Merrill Lynch Asia Pacific. In this role, he has overall responsibility for the Global Markets, Global Banking, Global Wealth and Investment Management Finance teams across the region. In addition, Krishna is a member of the Asia Pacific Executive Committee.

Krishna joined DSP Merrill Lynch, India, in 1995 and has a total experience of over 22 years, of which 17 years has been with the bank in various roles in the CFO and COO functions. Prior to his appointment as Asia Pacific CFO, he was the Asia 2009. Before moving to Tokyo, Krishna was the India CFO and was responsible for Finance, Risk Management, Treasury, Taxation and Strategy for India. Prior to this role he was the Chief Operating Officer (COO) for the Global Markets & Investment Banking business for India. Krishna was also the India Treasurer before assuming the role of COO. Prior to Merrill Lynch he has worked with multinational FMCG & Pharmaceutical companies in the Management Accounting and Corporate Forecasting functions.

Krishna is a graduate from University of Bombay and is a qualified Cost and Management Accountant (CMA).

Tax Titbits

S. Rajaratnam

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Advance Ruling – No more binding!

Advance Ruling from the Authority of Advance Ruling (AAR) in respect of non-resident taxation available from 1.6.1993 has the effect of short-circuiting the long winded legal procedure for remedies under the law by making such ruling binding all those applicant for the ruling and revenue to such ruling. It was by and large found useful for those who prefer present certainty to future uncertainty by resort to this procedure. It is prevalent in most advanced countries. In view of its use, it has been extended to dispute relating to public sector undertakings from 1.6.2000. The Finance Act, 2012, has further extended its jurisdiction in respect of matters involving application of General Anti Avoidance Rule (GAAR) with effect from 1.4.2013.

But the recent decision of the Supreme Court by a Bench of three Judges in Columbia Sportswear Company vs Director of Income-tax (2012) 346 ITR 161 (SC) has relaxed the binding nature of advance ruling, against which only special leave to the Supreme Court was hitherto permitted by throwing open the rulings for writ jurisdiction. The decision has the effect of treating the AAR on par with the Tribunal and the authorities under the Income-tax law, because of the powers of superintendence of the High Courts over the Tribunal. The purpose of making advance ruling rendered by a Bench of three Members presided over by a retired Judge of the Supreme Court final would be lost, if every judgement could be subject matter of writ petition before the High Courts. The result will be that, advance ruling will not be binding either on the applicant or revenue, so that the system of advance ruling gets diluted. A way should be found to make advance ruling more effective to sub-serve its purpose.

DRP's decision no longer binding on revenue!

A similar relaxation of finality of rulings thereby encouraging further litigation is found in an amendment providing for appeal against orders of Dispute Resolution Panel (DRP) consisting of three Commissioners of Income-tax, which was to be final as for as revenue is concerned, so as to enable settlements to disputes relating to transfer pricing with right of appeal only for the taxpayers. Section 253 has been amended by the Finance Act, 2012, enabling an appeal for revenue against the orders passed in pursuance of the decisions of the DRP. Since DRP was meant to be an alternative remedy for a normal appeal, the amendment brings routing of appeal to the high powered body on par with the normal appeal procedure, an unnecessary redundancy which dilutes the powers of this body, while missing the purpose of making its orders final as for as revenue is concerned.

Retrieval procedure for damage control is on!

Finance Act, 2012, has made drastic changes to our laws, the adverse results of which are being increasingly realised. In fact, some of these were noticed even when the Bill was pending before the Parliament, so that some amendments to reduce the rigours of law were made by postponing application of General Anti Avoidance Rule (GAAR) by a year and removing the provision for treaty override i.e. enabling domestic law to override treaty obligations, besides dropping the amendment placing the burden of proof on the taxpayer to prove avoidance. An assurance was also given by the Finance Minister in the floor of the House during discussion in the Parliament on 7th May, 2012 :

"Hon'ble Members are aware that a provision in the Finance Bill which seeks to retrospectively clarify the provisions of the Income-tax Act relating to capital gains on sale of assets located in India through indirect transfers abroad, has been intensely debated in the country and outside. I would like to confirm that clarificatory amendments do not override the provisions of Double Taxation Avoidance Agreement (DTAA) which India had with 82 countries. It would impact those cases where the transaction has been routed through low tax or no-tax countries with whom India does not have a DTAA.

The retrospective clarificatory amendments now under consideration of Parliament will not be used to reopen any cases where assessment orders have already

been finalized. I have asked the Central Board of Direct Taxes to issue a policy circular to clearly state this position after the passage of the Finance Bill.''

The result is that, there was an assurance that the amendments will not be enforced where they are contrary to treaty obligations under the Double Taxation Avoidance Agreements and that the retrospective amendments, which were claimed to be clarificatory, will not be used to reopen the past assessments. The amendments were made to enable taxation of transfer of underlying assets of holding companies, the shares of which are subject matter of transfer abroad between non-residents, so as to neutralize the decision in Vodafone International Holdings B. V. vs Union of India (2012) 341 ITR 1 (SC). The assurances would nullify the initial purport of the amendments. The objection taken to the long arm of law by retrospective amendments from 1.4.1962/ 1.4.1976 is also conceded to be ineffective, where assessments have been finalised. There are now further assurances by the Finance Minister to undo the mischief of the amendments.

Finance Minister's promise of review

The Finance Bill passed in haste is now recognized as requiring further changes as regards General Anti Avoidance Rule (GAAR) sought to be explained by a draft clarification hastily withdrawn by a Committee presided by the Finance Secretary now delegated to two more committees examining the law, so as to assure fair treatment to the Foreign Institutional Investors (FIIs). There is also promise to consider the impact of the amendments on software business, besides review of retrospective amendments made for ''removal of doubt'' to nullify the settled law. These and other steps are welcome, though one would have wished that it would have been better not to have acted in haste to avoid repenting at leisure.

Whither DTC?

The inclusion of the proposed changes and the various proposals made by the three Finance Bills after the Direct Taxes Code Bill, 2010, if it has to become law, would involve a stupendous task of revision. The better course is to entrust the matter of framing a new statute to an expert body representing the administration, trade and industry and the professions, besides economists, as had been done in many other countries, where a new statute replaces an old one. The amendments to law by the Finance Act, 2012, is one experiment, which occasions the recall of the comment of late Mr. N.A. Palkhivala critical of the attitude of tax administration in imagining that every change in law constitutes reform. ❐

Letters to Editor

Dear Sir,

I give below certain comments on August 2012 of our Journal.

My views as a very elderly member is appended and I would very much appreciate if this finds a place in any later issue :

i. Stupendous Growth

The last number of admission to Associateship is 33119. My own number, as one of the 'original' members of the Institute way back even before it got its statutory recognition is M172. What a stupendous growth!

I do hope that ICMA grows from strength to strength without sacrificing its quality.

ii. (A) I do hope that the Journal will stick to spelling as we are taught and not adopt U.S. ones—'fulfill' and 'specter' are examples.

(B) Second Para 3rd Line - throughout the history —the word 'the' is redundant.

(C) It is not works study. I think the correct usage is work study.

(D) Company—Since it refers to Kotak, the word should have started with Capital C.

(E) Last Para 3 rd Line—journal should start with capital J.

iii. PRESIDENT'S Communiqué

'Sought the blessings' (page 893)—why should we seek the blessings of Union Ministers? This is a mindset of our colonial past. We should request their assistance and cooperation.

iv. JOURNAL COMMITTEE

First Para 2nd line. The word Institute should start with Capital I.

3 rd Para—Ist Line—the word thrive is a wrong usage. The correct word is 'strive'. Additionally The word 'journal' should start with capital J.

Last Paragraph—'share the knowledge'. A more appropriate word for 'the' is 'our'.

I do hope you will take it in the spirit in which it is offered, not with malice, and publish it for the knowledge of our members and readers.

Regards

S. Balakrishnan, M/172
Chennai

■ **Letters may be edited for brevity**

Where Are Our Fiscal Laws Headed

T.C.A Ramanujam
Chief Commissioner of Income Tax (Retd) &
Former Member Income Tax Appellate Tribunal

T.C.A. Sangeetha
B.Sc., M.L.

"The Health of our Economy will not improve until we inject the 'S' factor into our fiscal laws, and make them Same, Simple and Stable".

Nani A. Palkhiwala

Introduction

Twin problems facing the Indian Economy are inflation and black money. One leads to the other. The common man looks to the Government for meaningful steps to be taken to fight both. When the budget was presented in March 2012, there was anxious expectation on the part of the middle class citizen that the tax exemption slab will go up as an answer to the mounting inflationary pressure. The Budget raised the minimum taxable limit to Rs. 2,00,000/-. The slabs are retained at 10% between Rs. 2 lakhs and 5 lakhs, 20% between Rs. 5 lakhs and 10 lakhs and 30% on income above Rs. 10 lakhs. Just a weak before the presentation of the budget, the Parliamentary Standing Committee on Finance submitted a Report to the Government recommending the raising of the exemption limit to Rs.3 lakhs and a rate of 10% up to Rs. 10 lakhs. This did not find favour. Acceptance of the recommen-dation of the Standing Committee on Finance would have helped the middle class to save on taxes and spend on consumer goods at a time when inflation is cutting into their pockets.

Inflation

On the other hand, the Budget proposed a huge hike in Indirect Taxes. The raising of excise duty by 2% at one go will add to the inflationary spiral. In fact, inflation shows no signs of waning. Indirect taxes are regressive and cannot be shifted. The share of Direct Taxes in the gross Revenue has been falling of late. Its stands at 56% of the total revenue collections in 2010-11, as per the figures given by the Director (Budget) CBDT. The same source also points out that the number of effective assesses has fallen from 3,crores 40 lakhs to 3, 37 lakhs between 2009-10 and 2010-11. Focus should be on non filers and wrong filers. One way of fighting inflation is by increasing the Direct Tax collections and reducing the indirect tax collections. Inflation is the invisible tax which has never been passed by Parliament. As Palkhiwala noted, it is not self-correcting but self-accelerating; it rises with compound vengeance. Of all economic phenomena, it is the most ruthless, relentless and remorseless.

J. M Keynes had observed;

"There is no subtler, nor surer, means of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic laws on the side of destruction, and does it in a manner which not one man in a million is able to diagnose".

There is one definition of inflation in simple terms:

"When a Government spends more than it gets, and labour gets more than it gives, the empty feeling in your pocket is inflation".

What efforts the Ministry of Finance have made to curb inflation? There is more glib talk than positive action.

A famous cartoonist sums up the Govt's response in the following words :

"Tax cuts for the rich and Welfare cuts for the poor".

Analysis of the Budget data shows that corporate tax concession by way of incentives will go up from Rs.3.7 lakhs crores in 2011-12 to Rs.5.3 lakhs crores in the coming fiscal years, a rise of about 43%. Corporate subsidies are made at the expense of the fisc. The threat of a continuous rise in petroleum products is ever hanging as a Damocles' Sward over the head of the common man. A cut in corporate tax concessions will easily make up for much of the deficit in other fields.

Cronyism

It is not merely the corporate tax concessions that stare at us as we look at the Indian fiscal system. Govt of India would like to poke its nose in the allocation of natural resources for the benefit of large private companies. We all know what happened in the 2G spectrum allocation case, involving a Revenue loss of Rs.1.76 lakh crores. Now comes another CAG Report. Coal blocks were allocated to Tata's, Jindals, Essar, and others resulting in an estimated loss of Rs.1.86 lakh crores to the Government. There was corresponding undue benefit to the private parties. This is also true of the fee collected at Delhi Airport to benefit a private operator without the sanction of the law. The Chairman of Coal India was questioned about the comments made by the Controller and the Audit General. This is reproduced below:

Q :

''CAG has alleged that the government has taken away a few coal blocks of CIL and has allotted them to private parties, in the process blocks in close proximity are under operation leading to loss of reserves for CIL. How do you react to this?

Ans :

It was the government's decision and we have nothing much to say on this''.

The Scourge of Black Money

Thanks to the campaign of Anna Hazare and Baba Ramdev, the nation's spotlight has turned on the scourge of Black money and moneys stashed abroad in foreign banks and tax havens. Estimates of the unaccounted money can vary from one source to another. It is, however, acknowledged that the amount is quite large. The Union Budget 2012 lists out several measures for dealing with the problem. All these measures can only amount to tinkering at the fringe and not attacking the core. Agreements for exchange of information have been entered into with about 30 countries.

Government of India is yet to tell us the concrete results achieved in trying to bring back the moneys stashed abroad. Income tax Act has been amended and measures are on the anvil to fight and expose dubious transactions. A new Chapter XA has been inserted containing new Sections 95, 96, 97, 98, 99, 100, 101 and 102 in the Income Tax Act relating to the General Anti Avoidance Rule. The Rules thus introduced were found so complicated and raised such a furor that the Government was first forced to postpone the new Sections to the next fiscal year. And then a Committee has been formed to dilute the provisions and make them acceptable to Foreign Direct Investors. Even our own Parliamentary Committee had suggested that the burden of proof should be on Revenue and not on the taxpayer. Lord Denning had said : ''No one would wish that any of those who defraud the Revenue should go free. They should be found out and brought to justice. But it is fundamental in our law that the means which are adopted to this end should be lawful means. The means must not be such as to offend against the personal freedom, the privacy and the elementary rights of property''. Government of India brought out a White Paper on Black money in May 2012. A perusal of the White Paper will show that illicit money parked outside India is being brought back as Foreign Direct Investment through Mauritius and Singapore and via stock market transactions involving Participatory Notes and Global Depository Receipts. Government has resisted the demand for disclosure of names of those known to have illicit fund abroad.

Both USA and UK has found ways and means of dealing with the problem of secret funds kept abroad. The Swiss Bank has agreed with the UK Government to levy a tax on the holders of such funds in the banks and share the proceeds of the tax with the UK Government. It is not known why Government of India has chosen to ignore this example. Instead, it was toying with the idea of, among others, demonetization. A Committee of the Central Board of Direct Taxes examined this proposal and reported this week that the measure is not feasible. The Committee, however, has not expressed its opinion on the question of entering into an agreement with the Swiss Banks for taxing moneys of Indians stashed abroad with a view to enable Government of India to share in such taxes.

Conclusion

India is not and will not be allowed to become a tax haven. That was what Dr. Pranab Mukherjee claimed before Parliament. We are yet to see this declaration translate into action. ❐

The Day After : Surveying the Aftermath and Consequences of the Tectonic Shift in the Service Tax

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To tax and to please, no more than to love and to be wise, is not given to men.

—Edmund Burke

Well, by now it has become clear that not many people expected the changes in the Service Tax Law to be so transforming and sweeping in its extended application. The example of Service Tax as we now see is a precursor to a largely unanalyzed GST and an unappetizing dress rehearsal for the shape of things to come under the Goods and Services Tax. Our country is not too well-known for a Research bent of mind. Our anticipations and expectations are generally imbued with a sense of bemusement, if not a down-beat sense of destiny and karmic resignation, not in the least animated by a rigorous and well-tooled mapping of what things should come to us as a nation and how. The same has been the case with the Service Tax. There appears to have been an inadequate grasp of the nature of the contemplated changes in Service Tax even after the Government went public with a draft of the proposed changes ahead of the introduction. It is another matter whether the Government was truly guided by the feed back it received before the introduction of the monumental changes in Service Tax. There has been no information from the Executive regarding how the democratic consultation prior to the tax policy changes was actualized into a legitimate input into the making and the delivery of the tax policy. Nevertheless the changes in the Service Tax Law appear here to stay and tax payers have to live with the consequences of the new taxes. It is undeniable that the transformed Service Tax has spread like wild fire among the hitherto unburdened segments of the Service Sector. In this Article we will survey the tax landscape in the aftermath of the so-called Negative List based Service Tax and analyse some of the controversial impact of the tax changes.

The Disturbing Novelty of Taxing All Kinds of Activity

For the first time since its introduction in 1994, the Service Tax Law has defined the scope of taxable service in broad, generic terms. Clause (44) of Section 65B of the amended Finance Act, 1994 defines Service as :

(44) **"Service" means any activity carried out by a person for another for consideration, and includes a declared service, but shall not include**

(a) An activity which constitutes merely

(i) a transfer of title in goods or immovable property, by way of sale, gift or in any other manner; or

(ii) such transfer, delivery or supply of any goods which is deemed to be a sale within the meaning of Clause (29A) of Article 366 of the Constitution; or

(iii) a transaction in money or actionable claim.

(b) a provision of service by an employee to the employer in the course of or in relation to his employment.

(c) Fees taken in any Court or tribunal established under any law for the time being in force.

The Unguided Nature of Taxing Provision in Service Tax

As can be seen, the Service Tax Law looks out for 'any activity' done by one person for another involving 'consideration'. To add to the completely sweeping nature of the definition of 'activity', the Law does not sport a cut and dried definition of 'consideration'. The Administrative Department has indicated that the range of the word 'activity' is very wide and includes any action, whether active or passive, and would also include an act of forbearance, agreeing to an obligation to refrain from an act or to tolerate an act or a situation which are listed as 'declared services' under Section 66E. Thus the scope of Clause (44) of Section 65B has been phenomenally extended by Section 66E. The Department has further stated in Guidance Note No.2

of their so-called Education Guide that the word 'activity' would include—

an act done

a work done

a deed done

a operation carried out

execution of an act

provision of a facility

etc.

Coupled with the Department's caution that the consideration would include both the value of monetary consideration and the value non-monetary consideration, the implication for tax payers is indeed stark as well as uncertain. By leaving the scope of the word 'activity' open-ended, the Department has guaranteed confusion and litigation and has opened the gates for the judicial curtailment of the excessive and unreasonable reach of the word 'activity'. There are unwelcome implications if the word 'activity' is not qualified by mitigating and relevant factors such as **business, commercial or economic**. For example, imagine a person handing over a sum of Rs. 15 lakhs to his relative or friend to care for his aged parents in a remote rural area. Now will this sum invite Service Tax? Here is an activity to be rendered by a person for a certain consideration even though the consideration should ideally be spent for the welfare of the aged couple. The consideration herein may not be entirely founded upon fiduciary duty. The caretaker would also have to be taken care of in terms of the consideration. It would not be a contract of employment either. Or consider one company agreeing evidentially or otherwise not to participate in or withdraw from a big government tender in favor of another company in anticipation of a future order or a marketing alliance elsewhere with it. Or consider another company agreeing not to invoke the contractual right of first refusal to buy the offloaded shares of its partner in a joint venture, for a cordial future relationship with the departing partner? Will such corporate behavior become taxable? Will a contractual relationship be inferred by the department of service tax into such conduct?. These examples can be multiplied endlessly and the Service Tax can unwittingly enter family life and 'transactional' patterns of an intimate, emotional nature as well as probe deeply into strategic recesses of corporate thought and behavior. The Department explains—vide para 2.3 of Guidance Note No. 2 of their Education Guide, as :

Activity for a Consideration

The concept 'activity for a consideration' involves an element of contractual relationship wherein the person doing an activity does so at the desire of the person for whom the activity is done in exchange for a consideration. An activity done without such a relationship i.e. without the express or implied contractual reciprocity of a consideration would not be an 'activity for consideration' even though such an activity may lead to accrual of gains to the person carrying out the activity.

From the above admission of the Department, it is clear that they will tax all elements of a contractual relationship covering an impugned activity involving consideration. The tax liability would disappear only in the absence of contractual reciprocity. The presence or absence of contractual reciprocity would itself be subject to manifold interpretation. Further, a contract may be written or oral, or express or implied. The contract law is complex, variegated and still evolving. Freedom of contract and social policy often conflict. It is a matter of real regret that the Parliament has allowed such a wide latitude to the Executive without putting in place proper Guidelines on the exercise of such enormous taxing power to enforce outgo of moneys from the hapless citizens in the guise of Tax.

Deemed Sales

The Clause (44) of Section 65B openly states that an activity which is in the nature of deemed sale involving a transfer/supply of goods does not amount to Service. This claim is being made for the first time in the Service Tax statute. By its very nature, a deemed sale involves an element of provision of goods and a collateral incidence of Service to effectuate the provision of supply/transfer of the goods. By proclaiming to exclude deemed sales coming within the meaning of Clause (29A) of Article 366 of the Indian Constitution, the Law of Service Tax restricts itself from enlarging its embrace to cover precisely the transactions which are constitutionally defined to be deemed sales. However, Section 66E covering declared services proceeds exactly to tax the so-called service portions of deemed sales. Since trading of goods or sales involving transfer of title in goods or immovable property stands already excluded, there was little necessity for the Executive to put in the Service Tax Law the provision that taxable service does not include a deemed sale of goods. A deemed sale is a sale nevertheless as per the Indian Constitution. The legal fiction strangely built into the Constitution has to be honoured. A deemed sale of goods involving service incidental thereto cannot be constitutionally taxed under Service Tax Law in the guise of declared services. Even though such declared services were being taxed prior to 1st July 2012 there was no claim in the Law then that a deemed sale is not a taxable service in the service tax statute. There cannot be a deemed sale of goods without involving a collateral provision of service which is inbuilt in the moniker of deemed sale. The range of services covered under Section 65E bristle with Constitutional impermissibility.

Tax on Arbitral Tribunal

An Arbitral Tribunal is a creature of an Act of Parliament, viz., the Arbitration and Conciliation Procedure Act, 1996. Such Tribunals have been conferred with certain court-like powers. Their awards can be challenged only in limited circumstances. Contempt of Arbitral Tribunals is a possible offense and can be punished by courts of law. Therefore, it appears that a tax on Arbitral Tribunals is in effect a tax on quasi-judicial service. The relationship between an Arbitral Tribunal and the litigating parties cannot be said to be derived from contract involving payment of consideration, even though the arbitration process may have commenced as a result of a contractual stipulation between the litigants concerned. There cannot be a contract between the Arbitration Tribunal and the litigants before it. Even if the arbitrators have been appointed by either party, the arbitrators cannot take respective sides. It will be antithetical to natural justice. The Tribunal derives its legality from an Act of Parliament and its functionality is a result of the contract between two or more private parties who have now become litigants. The Tribunal performs a statutory duty and enjoys incidental and default power to effectuate the duty. The activity, therefore, is clearly outside the scope of the new-fangled Service Tax.

In this regard it can be seen in Clause (44) of Section 65B that fees taken in any Court or Tribunal established under any Law for the time being in force is treated as non-service for Service Tax purposes. Therefore the attempt to introduce a Service Tax on Arbitral Tribunal in the guise of a partial exemption under Notification No.25/2012 dated 20.6.2012 and burden Corporations with reverse Service Tax on fees they pay to the Tribunal, vide S. No. 4 of Notification No. 30/2012 dated 20.6.2012, appears to be clearly beyond the pale of law.

Taxing Transfer/Sale of Business Entities

The Service Tax Notifications issued on 20th June 2012 conceal disguised taxation by smart attempts to engineer the taxation of certain activities indirectly. In addition to the tax on Arbitral Tribunal and a tax on a Mutuality such as a Chit Fund, it may be seen that Entry S. No. 37 of Notification NO.25/2012 dated 20.6.2012, gratuitously provides for tax exemption for the following :

"Services by way of transfer of a going concern, as a whole, or an independent part thereof".

Reading from this exemption, it becomes apparent that the Service Tax Department views a sale of a Business Entity or even a part of it as a taxable service in terms of the Finance Act, 1994, as amended. A tax exemption cannot make legal what is otherwise illegal. As we can see, Clause (44) of Section 65B of the New Finance Act, 1994, states that taxable service shall not include inter alia an activity constituting a transfer of title in goods or immovable property by way of sale, gift or in any other manner. Going by this definition, it is not understandable as to how the Executive can purport to exempt from Service Tax a transfer of a going concern as a whole or an independent part thereof.

The Injustice Inherent in the Imposition of and Extended Reverse Tax

The Executive—in a manner of abdicating its basic responsibility to collect taxes equitably and from all the taxable segments alike without putting an undue burden of compliance—has attempted to pluck the low hanging fruits in the tax garden by imposing a Reverse Service Tax on select services where executive enforcement of Law has been dismal owing to a variety of reasons. Corporate entities have been the favorite whipping boys to receive the reverse taxes in a slew of services when they source such services from individuals and non-corporate entities. The cost of compliance for the affected entities is bound to go up. The availability of CENVAT Credit cannot make them forget the pain of such reverse taxes. On the other hand, there will be all round piling up of unadjusted CENVAT Credits and this will constitute an effective increase in tax incidence. The TDS and the Reverse Tax are a sad admission of the Revenue Administration's inability to collect taxes at the origin and they pass on the buck to hapless business entities that are not in the least compensated for the considerable costs of learning, training and achieving compliance on behalf of the tax administration which they must perform on pain of penalty and even prosecution.

Conclusion

The changes introduced in the Service Tax Law have permeated every nook and corner of the tax Economy. It is the social duty of the Government to ensure that the open and hidden tax increases does not result in pushing up an inflationary spiral of prices in the short-to-medium term. The Government may consider introducing in the Law Guidelines in the nature of Checks and Balances to properly define the nature and scope of taxable 'activity' instead of leaving it to an 'education guide' not put to the parliament. Failing to do so could result in the rank and file of the revenue administration interpreting the Law as they fancy, culminating in nationwide explosion in litigation that wastes the time of all the stakeholders. ❐

Capital Leverage and Economic Value Creation

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Introduction

Economic Capital

Economic capital is the capital that an organization should have in addition to the regulatory capital, which should also include the cost of maintaining the regulatory capital. It refers to that amount of capital an organization should have, to meet all its risks in the form of credit risk, market risk and operational risk. It also includes the opportunity cost of equity capital. It means that in addition to the debt interest and other monetary obligations, the economic capital should include the cost of premium to be given to the equity share holders for the risk they are willing to undertake, by purchasing the shares of the company. The corporate form of organization has always considered equity capital as a free capital, in the sense; the dividend payout is also done only after meeting all the other monetary payments. The opportunity cost of this capital when included with the debt capital of a corporate entity, is ideally known as economic capital. This is used as a parameter in determining the economic value added by a company. It means that a company must create value to its shareholders, not only market value but also economic value. By appropriately utilizing the already existing capital, both equity and debt, without any further additional capital, if the company properly evaluates its projects and performances, and still creates additional value, then an organization is said to be successful. The emerging method of evaluating such economic value created by corporate houses is studied here. As Peter Drucker has mentioned in Harvard Business Review Article—''Until a business returns a profit that is greater than its cost of capital, it operates at a loss. Never mind that it pays taxes as if it had genuine profits. The enterprise still returns less to the economy than it devours in resource. Until then it does not create wealth; it destroys it. EVA is an excellent indicator of wealth creation.''

Economic Value Addition

It is that level of operating profits that a company generates, to meet all its cost of capital, both debt and equity. The most fundamental argument of this method is that the shareholders must earn a rate of return that compensates the risk that they have taken. They must earn the same returns as correspondingly risky investments in the market, earn. The greater the EVA, the greater is the value created by their share holdings.

The objectives of this study are

(a) Determination of EVA in selected group of BSE companies, by ascertaining their NOPAT, Return on equity through CAPM model, Return on debt capital, Beta factor and economic capital employed, for the past 3 years. (2008-09, 2009-10, 2010-11)

(b) Changes in EVA caused due to changes in debt equity ratio.

(c) The relationship between debt equity and EPS.

(d) The relationship between debt equity and EVA.

Literature Review

Capital structure has been studied and analysed in various forms under various assumptions. The entire concepts of capital structure theories have undergone an evolution. The primary and well known being the MM approach or the ''Theory of irrelevance'' (Miller and Modigliani, 1961). This states that the market value of any firm is not affected by a change in its debt component. It clearly states that the market value of a firm and its debt equity component are independent events. The theory assumes that Capital markets are perfect and that there is no change in the expected income from the investors point, for any level of debt equity. It further assumes that there are no corporate taxes and that there is 100% dividend payout. Later in 1977, Miller himself gave his second proposal adding taxes to the analysis and explained that infusion of debt capital at macro level companies is beneficial as interest deductibility for tax purpose is possible. However at micro level it may not work out. Other imperfections such as Bankruptcy cost (Baxter 1967, Stiglitz1972, Kraus and Litzenburger1973, Kim 1978), Agency cost (Jenson and Meckling 1976) and gains from leverage induced tax shields (Deangelo and Masulis 1980) were added to the analysis and have proposed that an optimal capital structure may exist.

Other theories such as, The Net income theory by David Durand, demonstrates that a change in financial leverage will lead to change in overall cost of capital and thereby the total value of the firm. Durand gave his net operating income approach where unlike his previous theory; he assumed that the investor's perception of risk varies. In that he explains that risk premium demanded by investors would increase for an increase in debt capital and proved that in spite of an increase in the average cost of capital, the value of the firm remains the same. Further, the Arbitrage theory also stated that, the total value of similar firms that differ only in leverage will not be different due to the existence of arbitrage operations.

On this background, this study tries to establish a relationship between leveraged capital and economic value of the firm. Economic value is the value that a firm creates, not merely through market capitalization or book value, but through creating real value, by taking into account the opportunity cost. It is a performance metric that calculates the creation of shareholder value, but it is different from EPS in the sense that, EVA is calculated as profits which remain after the costs of a company's capital - both debt and equity - are reduced from operating profit.

Research Methodology

Data Type

The study uses secondary data published by various sources such as the BSE India, the Annual reports of various companies analysed and other exclusively financial information websites.

Source of data

This study uses secondary data and is sourced from :

(a) Published Annual reports for 2008-08, 2009-10, 2010-11 of Mahindra and Mahindra, Bajaj Auto Ltd., Tata steel., Jindal steel, NTPC ltd, Tata power ltd, Infosys ltd, TCS ltd, Sun pharma, Cipla pharma, L&T heavy industries, BHEL, Barthi Airtel, HUL and ITC ltd.

(b) The BSE India official web site. (www.bseindia.org)—the values of beta for the periods Jan 2008-09, Jan 2009-10, Jan 2010-11, weight age of companies surveyed in the sensex for the period Jan 2010 to Jan 2011.

(c) www.moneycontrol.com/financials/balance-sheet for various details of cash statements and interest payments.

Tools for analysis

(a) The above mentioned 15 companies are chosen on the basis that they have the highest and second highest weight age in their respective sectors in the computation of sensex (Source: BSE India weight age for Sensex calculation for the period Jan 2010-Jan 2011).

(b) The beta values are taken from BSE India website for the periods Jan 2008-09, Jan2009-10, Jan 2010-11.

(c) The NOPAT (Net Operating Profit after Taxes) are determined using the formula Sales revenue as reduced by depreciation, amortization expenses, revenue expenditures, interest, corporate tax is assumed at 30% and then again added back interest (1 - tax).

(d) The risk free rate is taken as 7.92% which is the 10yr T-bond average yield rate, issued by The Government of India.(Source: RBI bulletin and official website www.rbi.org/in)

(e) The market return is the Long run rate of return (Adjusted to inflation) of BSE sensex since 1979.

(f) The cost of equity capital is calculated on the basis of CAPM or Capital Asset Pricing Model.

(g) The cost of debt is calculated as Interest/Total debt capital *100.

(h) The Economic Capital calculated as Total Assets as reduced by Current liabilities.

(i) The Karl Pearson's correlation coefficient is used in determining the correlation between Debt equity ratio and EPS & Debt equity ratio and EVA.

(j) Weight age as per www.bseindia.org for the period Jan 2010 to Jan 2011.

Limitations of the study

(a) This study was based on actual debt equity ratio of the companies for various time periods. As per that there is no correlation between debt equity ratio and EPS and debt equity ratio and EVA. However when actual debt equity ratios are considered, any change in debt equity ratio, say an increase in debt component will also have the same average cost of capital because as debt increases, the risk that share holders are willing to take also increases, and hence the expected equity returns also increases. This will nullify the tax shield effect of increased debt component. So any change in debt equity ratio, will yield the same return. So in reality to achieve better results of EVA, a target debt equity ratio is needed, so that in the long run, immaterial of any change in the total cost of capital(both equity and debt), the EVA would increase. This study does not deal with optimal capital structure or a target debt equity ratio. More than a limitation the same can be considered as a scope for further research.

(b) Further, this study has not been considered the market value of share, though Beta value has been taken into account.

The relation between capital structure and Economic Value creation

Capital structure of a company consists of its long term debt, short term debt, equity capital and preference capital. It basically describes the various sources of funds for an organization. A proper mix of both is needed to achieve maximum profit and enhance the wealth of share holders. The share holders of a company expect a rate of return, which is higher that similar investments in the market or at least the same return. This is known as cost of equity. Generally it is measured as Market return reduced by risk free return. This study uses the Capital asset Pricing Model to determine the Cost of equity and hence as also used the beta factor, which is the measure of volatility of a company's share to market or index volatility.

Many companies use debt capital and leverage on the same as debt capital is cheaper when compared to equity capital. Moreover tax shield can be availed by using debt funds. It is because even though interest component may be fixed and drain the profits of a company, sometimes the tax benefit is more than the interest paid. Hence when any new project is appraised, their NPV will be positive and will encourage the management to use more debt capital, though the risk attached may be more. However this benefit continues only till that point where Earnings per share (EPS) keep increasing. It grows till the EBIT breakeven point, where tax benefits exceed the cost of debt capital. Beyond that breakeven point any more debt capital would mean assuming disproportional risk. It means that there is no sufficient equity capital to fall back upon, in the event of solvency. It also results in heavy bankruptcy costs in the sense; the liquidation cost of the company would be more than the benefits of the leverage. Hence all these factors are considered by companies, before going for debt capital.

However mere equity capital, may be absolute risk free capital, but the competitive advantage of leverage will be missed out .If a company can properly device a target debt equity structure and enjoy its competitive advantage, then maximum wealth can be created for shareholders.

This study hence analyses the financial data, of companies with various debt equity mix and tries to prove the relation between debt equity ratio and value added, by using both EPS and EVA as parameters. The companies analyzed are follows :

a. Infosys, BHEL, ITC, and Cipla Ltd which have no debt capital or meager debt capital. (Debt equity ratio is zero or 0.01)

b. Bharthi Airtel , Mahindra and Mahindra ,L & T ltd and NTPC have less debt capital(Debt equity ratio less than 1)

c. And Tata steel, Jindal steel which have more debt capital(Debt equity ratio more than The study tries to prove that, irrespective of whether the company has levered capital or unlevered capital, it yields the same result, unless consistent cash flows are generated by new projects. It is the project evaluation on the basis of higher and consistent cash flows which creates value to shareholders and not the way the finance is sourced.

Selected case studies

The study has chosen 10 companies registered in BSE India and which form the major companies in terms of its weight age in determining the sensex, on a day to day basis. The following analysis shows the EVA computed on the basis of NOPAT, weighted average cost of capital and economic capital. Later the correlation between debt equity ratio & EPS and debt equity ratio & EVA is found using Karl Pearson's correlation coefficient.

Case 1 : Mahindra and Mahindra Co. Ltd.

It has the highest weight age (2.48%) in determining the daily Sensex value in automobile sector.

Table 1 : Showing details of value creating parameters from 2008-2011.

INDICATORS	2010-11	2009-10	2008-09
EPS(Rs./share)	45.33	36.89	30.69
EVA (Rs./share)*	36.34	28.74	20.63
EVA (Rs. In lakhs)*	2134.25	1662.20	575.20
BOOK VALUE(Rs./share)	174.85	138.02	191.91
D/E	0.23	0.37	0.77
BETA VALUE^	1.08	1.22	1.1
NOPAT*	2711.70	2197.55	930.66

**Calculations given in Annexure ^ www.bseindia.org for the period Jan '10- Jan '11*

Source : Annual reports from FY 2008-09 to 2010-11

CORRELATION BETWEEN D/E AND EPS : 0.0398

CORRELATION BETWEEN D/E AND EVA : –0.0396

Interpretation and implication

The EPS of the company is in continuous rise. The company had gone for a stock split in 2008-09 and in spite of the split there has been a consistent rise in EPS. The EVA of the company is also in rise on a consistent basis. The beta factor of the company has been wavering above 1, meaning that the company's share price is highly volatile. There is a positive correlation between debt equity ratio and EPS, indicating that higher leverage increases EPS. The NOPAT has consistently increased. The stock split had resulted in an enormous increase in EVA in the period 2009-10.However there is negative correlation between debt equity and EVA, indicating that leverage does not create additional value. It clearly reveals that in spite of a change in debt equity ratio from 0.77 to 0.23, both the EPS and EVA have increased. This is because there has been a consistent increase in NOPAT. It is ultimately the cash flows which determine the growth or fall of the EPS and EVA. However in order to get stability, the company has to maintain and in fact enhance its cash flows because it has higher beta value and is prone to volatility.

Case 2 : Larsen and Toubro Ltd (L&T)

It has the highest weight age (4.33%) in determining the daily Sensex value in heavy industries sector (weight age as per www.bseindia.org for the period Jan 2010 to Jan 2011).

Table 3 : Showing details of value creating parameters from 2008-2011.

INDICATORS	2010-11	2009-10	2008-09
EPS(Rs./share)	65.01	72.66	59.45
EVA (Rs./share)*	74.19	75.32	62.95
EVA (Rs. In lakhs)*	4517.08	4535.44	3687.16
BOOK VALUE(Rs./share)	352.4	303.28	212.32
D/E	0.33	0.37	0.53
BETA VALUE^	1.12	1.17	1.05
NOPAT*	4,797.35	5,072.28	4,020.66

**Calculations given in Annexure ^www.bseindia.org for the period Jan '10- Jan '11*
Source : Annual reports from FY 2008-09 to 2010-11

CORRELATION BETWEEN D/E AND EPS : –0.0823

CORRELATION BETWEEN D/E AND EVA : –0.1109

Interpretation and implication

The EPS of the company has increased and marginally fallen in the year 2010-11. The EVA of the company has also increased and marginally fallen in the year 2010-11.The beta factor of the company is more than 1, meaning that the company's share price is highly volatile. There is a negative correlation between debt equity ratio and EPS, indicating that higher leverage lesser the EPS and vice-versa. The NOPAT has risen and fallen. Further, there is a negative correlation between debt equity and EVA, indicating that leverage does not create additional value.

The company has actually raised its equity capital as well as debt capital, but the ratio of debt to equity has fallen over years. As a result the interest payments of the company have also increased from Rs.995.37 lakhs in 2009-10 to Rs.1199.23 lakhs in 2010-11(refer annexure). The debt equity ratio is falling because the capital reserves, in the form of retained earnings, have risen over years. Consequently there is a fall in the NOPAT because of which there is a marginal fall in EVA too. This company is a clear proof that in spite of reducing the debt capital (but increased interest payments), it is not able to show a positive correlation between EPS and D/E and EVA and D/E. This again falls back on consistent cash flows and not on how they are sourced.

Case 3 : Bharat Heavy ElectricalsLltd (BHEL)

It has the highest weight age (1.62%) in determining the daily Sensex value in heavy industries sector.

Table 4 : Showing details of value creating parameters from 2008-2011.

INDICATORS	2010-11	2009-10	2008-09
EPS(Rs./share)	122.8	88.06	64.11
EVA (Rs./share)*	144.12	110.29	83.62
EVA (Rs. In lakhs)*	7054.88	5399.06	4093.54
BOOK VALUE(Rs./share)	411.71	325.16	264.32
D/E	0.01	0.01	0.01
BETA VALUE^	0.88	0.76	0.99
NOPAT*	6,049.51	4,334.09	3,159.71

*Calculations given in Annexure ^www.bseindia.org for the period Jan '10-Jan'11
Source : Annual reports from FY 2008-09 to 2010-11

CORRELATION BETWEEN D/E AND EPS: Cannot be established as debt capital is meager

CORRELATION BETWEEN D/E AND EVA: Cannot be established as debt capital is meager.

Interpretation and implication

The EPS of the company is in continuous rise. The EVA of the company has also increased, consistently. The beta factor of the company is little less than 1. Further, it has decreased and then again shot back to 0.88. As the company has very meager debt capital, no correlation is established between D/E and EPS and D/E and EVA. The NOPAT has also consistently increased.

The company is an unlevered company, meaning it has no or meager debt capital. Further the company's beta has been little less than 1 but showing all symptoms of going beyond 1 beta value. It means that the company's share price is volatile and possibilities of becoming higher are more. But in spite of being prone to systematic risk and having no leverage the company is able to show a consistently increasing EPS as well as EVA. This again drives back to the positive and consistent cash flows of the company which is possible only by proper evaluation of projects.

Case 4 : Tata Steel Ltd

It has the highest weight age (1.78%) in determining the Sensex value in Iron& steel industries sector

Table 5 : Showing details of value creating parameters from 2008-2011.

INDICATORS	2010-11	2009-10	2008-09
EPS(Rs./share)	71.58	56.37	69.7
EVA (Rs./share)*	33.07	23.87	44.52
EVA (Rs. In lakhs)*	3172.47	2117.63	3252.51
BOOK VALUE(Rs./share)	503.19	418.94	331.68
D/E	0.59	0.68	1.34
BETA VALUE^	1.2	1.67	1.46
NOPAT*	8,046.08	6,340.53	6,244.39

*Calculations given in Annexure ^www.bseindia.org for the period Jan '10–Jan '11
Source: Annual reports from FY 2008-09 to 2010-11

CORRELATION BETWEEN D/E AND EPS : 0.0072
CORRELATION BETWEEN D/E AND EVA : 0.0165

Interpretation

The EPS of the company had fallen in 2009-10 and then again rose in the year 2010-11. The EVA also fell and recovered in 2010-11.The beta factor of the company is above 1, meaning that the company's share price is highly volatile. There is a positive correlation between EPS and D/E ratio indicating higher leverage means higher EPS. The NOPAT has also consistently increased. There is also a positive correlation between EVA and D/E ratio.

The company had halved its debt equity ratio in 2009-10 from 1.34 to 0.68 times. It means that the company reduced its debt in relation to equity capital. Actually, the company has raised its equity capital as well as debt capital, but the ratio of debt to equity is less. As a result the interest payments of the company have also increased from Rs.1861.90 lakhs in 2009-10 to Rs.2027.21 lakhs in 2010-11(refer annexure). Consequently there is only a marginal increase in the NOPAT because of which there is a marginal increase in EVA also. This company is a clear proof that in spite of having a high beta and halving the debt capital (but increased interest payments), still it is able to show a positive correlation between EPS and D/E and EVA and D/E. This is a further proof that debt equity ratio and other parameters are not related.

Case 5 : Jindal Steel Ltd

It has the second highest weight age (1.50%) in determining the daily Sensex value in Iron and steel industries sector

Table 6 : Showing details of value creating parameters from 2008-2011.

INDICATORS	2010-11	2009-10	2008-09
EPS (Rs./share)	22.09	15.89	99.35
EVA (Rs./share)*	15.72	11.51	80.66
EVA (Rs. In lakhs)*	1130.30	839.30	1059.92
BOOK VALUE (Rs./share)	92.99	72.44	350.16
D/E	1.39	1.24	0.92
BETA VALUE^	1.22	1.11	1.13
NOPAT*	2,402.37	1,711.84	1,724.00

*Calculations given in Annexure ^www.bseindia.org for the period Jan '10–Jan '11
Source : Annual reports from FY 2008-09 to 2010-11

CORRELATION BETWEEN D/E AND EPS : –0.0069
CORRELATION BETWEEN D/E AND EVA : –0.0083

Interpretation and implication

In spite of a huge stock split, even when EPS dipped the NOPAT rose marginally. It is a clear indication that EPS is not a clear parameter for measuring value creation. Even the EVA/share had dropped because the volume of shares had increased. However the total value added (EVA) increased to pre stock split levels and even more than that, in 2010-11.Hence again it is proved that the cash flows determine the value added and not other parameters. The debt equity ratio has been continuously increasing yet the correlation between EPS and D/E and EVA and D/E is negative, proving they are independent events. Though increasing beta values do not affect the vale added, it has to be looked into as it may affect the market value of the share.

Limitation of data of Jindal steel Ltd

As the company had gone for a huge stock split in 2009-10, the negative correlation might have been established due to averaging of the fall and rise of EPS and EVA and a heavy rise of D/E ratio.

Case 6: National Thermal power Ltd.(NTPC Ltd.)

It has the highest weight age (2.09%) in determining the daily Sensex value in power sector.

Table 7: Showing details of value creating parameters from 2008-2011.

INDICATORS	2010-11	2009-10	2008-09
EPS(Rs./share)	11.04	10.59	9.95
EVA (Rs./share)*	4.71	4.54	4.41
EVA (Rs. In lakhs)*	3887.67	3743.95	3634.64
BOOK VALUE(Rs./share)	82.94	77.28	71.55
D/E	0.63	0.59	0.59
BETA VALUE^	0.7	0.67	0.63
NOPAT*	10,521.64	10,031.53	9,417.20

**Calculations given in Annexure ^www.bseindia.org for the period Jan '10–Jan '11*
Source : Annual reports from FY 2008-09 to 2010-11

CORRELATION BETWEEN D/E AND EPS : 0.0812
CORRELATION BETWEEN D/E AND EVA : 0.0895

Interpretation and implication

The EPS of the company has been increasing marginally but consistently. The EVA follows the same pace of EPS. The beta factor of the company is less than 1 but is increasing and is more than 0.5. it means that the shares of the company are volatile but not much. The debt equity ratio has marginally increased over the years. More or less consistent leverage has been maintained. The NOPAT has again marginally but consistently increased. Both the EPS and EVA are positively correlated with debt equity ratio. This power sector company is a classic example of levered company, which around 0.5 leverage is able to show consistent growth in EPS and EVA. This is a properly levered company which enjoys the benefits of leverage and tax shield to the optimum .This targeted level of debt equity ratio coupled with effective evaluation of future projects using methods like EVA will enable the company to have higher growth and welfare to its share holders.

Case 7 : ITC India Ltd

It has the highest weight age (8.67%) in determining the daily Sensex value in retail industries sector (weight age as per www.bseindia.org for the period Jan 2010 to Jan 2011).

Table 9 : Showing details of value creating parameters from 2008-2011.

INDICATORS	2010-11	2009-10	2008-09
EPS(Rs./share)	6.45	10.64	8.65
EVA (Rs./share)*	5.29	8.52	6.51
EVA (Rs. In lakhs)*	4095.81	3254.26	2458.61
BOOK VALUE(Rs./share)	20.55	36.69	36.24
D/E	0.01	0.01	0.01
BETA VALUE^	0.68	0.64	0.5
NOPAT*	5,042.29	4,124.20	3,296.95

**Calculations given in Annexure ^www.bseindia.org for the period Jan '10–Jan '11*
Source : Annual reports from FY 2008-09 to 2010-11

CORRELATION BETWEEN D/E AND EPS: Cannot be established as debt capital is meager.
CORRELATION BETWEEN D/E AND EVA: Cannot be established as debt capital is meager.

Interpretation and implication

The EPS of the company had initially risen and then again fell in 2010-11.The EVA of the company also followed suit with EPS. The beta factor of the company is less than 1 but is marginally rising and is more than 0.5. There is no debt capital and hence no correlation is established between debt equity and EVA and EPS. The NOPAT has been consistently increasing.

This is another example of unlevered company also creating additional value, but however in this particular case, the EVA has dropped in spite of increase in NOPAT. This is because the funds generated have not been invested properly. The EVA approach not only helps in choosing a project which gives consistent returns in the long run, but also helps in proper channelization of excess funds, by almost accurately predicting the actual future cash flows. Here, in spite of consistent increase in cash flows or operating profits, because of no proper channelization of the funds, no value addition is happening.

Case 8 : Cipla Pharmaceuticals Ltd

It has the second highest weight age (1.32%) in determining the daily Sensex value in pharmaceutical sector

Table 12 : Showing details of value creating parameters from 2008-2011.

INDICATORS	2010-11	2009-10	2008-09
EPS(Rs./share)	11.96	13.47	9.99
EVA (Rs./share)*	6.19	8.78	6.49
EVA (Rs. In lakhs)*	496.95	705.24	504.7
BOOK VALUE(Rs./share)	82.25	73.55	55.86
D/E	0.07	0	0.22
BETA VALUE^	0.46	0.4	0.35
NOPAT*	968.00	1,101.30	813.37

**Calculations given in Annexure ^www.bseindia.org for the period Jan '10–Jan '11*
Source : Annual reports from FY 2008-09 to 2010-11

CORRELATION BETWEEN D/E AND EPS : –0.421
CORRELATION BETWEEN D/E AND EVA : –0.351

Interpretation and implication

The EPS of the company initially rose but later has fallen. The EVA of the company had also increased and then fallen. The beta factor of the company is less than 0.5.There is a meager debt capital and also shows mild negative correlation between debt equity and EVA & debt equity and EPS. The NOPAT also initially rose and then fell.

This company has a marginal fall in operating earnings. This could either indicate a further fall in operating revenues meaning no further value addition or could mean inefficient evaluation of existing project.

Case 9 : Bharti Airtel

It is the only company in Telecommunications sector with a weight age of 1.32%, included in determining the daily Sensex value

Table 13 : Showing details of value creating parameters from 2008-2011.

INDICATORS	2010-11	2009-10	2008-09
EPS(Rs./share)	20.32	24.82	40.79
EVA (Rs./share)*	13.25	19.24	33.46
EVA (Rs. In lakhs)*	5033.47	7307.36	6350.57
BOOK VALUE (Rs./share)	115.42	96.24	145.01
D/E	0.27	0.14	0.28
BETA VALUE^	0.75	0.65	0.99
NOPAT*	7,924.59	9,624.50	8,047.75

*Calculations given in Annexure^ www.bseindia.org for the period Jan '10–Jan '11

Source : Annual reports from FY 2008-09 to 2010-11

CORRELATION BETWEEN D/E AND EPS : 0.0363
CORRELATION BETWEEN D/E AND EVA : 0.0298

Interpretation and implication

The EPS of the company has been falling. In 2009-10 there was stock split because of which the EPS fell considerably but it has not improved in the subsequent year too. The EVA of the company has also fallen. The beta factor of the company is above 0.5 and is increasing. There is a mild positive correlation between D/E and EPS and D/E and EVA.The NOPAT had increased in spite of the stock split but has later fallen down in 2010-11.

The company's operating earnings rose even in the year of split but later has dropped down. This is a clear case of higher returns of projects in the initial years and no or less returns in the long run. Such wrong assessments could have been prevented if EVA method of evaluation was done. Further the debt equity ratio of the company has also remained more or less constant indicating again that it is not the leverage but the cash flows which determine the value addition.

Case 10 : Infosys ltd

It has the highest weight age (10.68%) in determining the daily Sensex value in the Information and Technology sector.

Table 14 : Showing details of value creating parameters from 2008-2011.

INDICATORS	2010-11	2009-10	2008-09
EPS(Rs./share)	112.22	101.13	101.58
EVA (Rs./share)*	77.13	70.63	77.71
EVA (Rs. In lakhs)*	4428.50	4052.66	4451.41
BOOK VALUE(Rs./share)	426.73	384.02	310.9
D/E	0	0	0
BETA VALUE^	0.98	0.76	0.46
NOPAT*	6,443.70	5,804.40	5,820.40

*Calculations given in Annexure ^www.bseindia.org for the period Jan '10–Jan '11

Source : Annual reports from FY 2008-09 to 2010-11

CORRELATION BETWEEN D/E AND EPS: correlation cannot be established as debt capital is nil.
CORRELATION BETWEEN D/E AND EVA: correlation cannot be established as debt capital is nil.

Interpretation and implication

The EPS of the company has risen. The EVA of the company fell but recovered in the subsequent year. The beta factor of the company is above 0.5 and is increasing. There is no debt capital for the company and hence no correlation can be established. The NOPAT had slightly dipped but later recovered.

Infosys is known for its no debt capital and has again substantiated the fact that capital structure does not determine the value created.

Summary of Findings of the Study

(a) The operating earnings or NOPAT :

The study finds and summarizes that it is the consistent cash inflows in the long run which creates more value to the share holders and not the structure of the capital. Irrespective of the company being a levered one or not, it is concluded that Economic Value Addition and capital structure are independent events. It is ultimately the cash flow which is forecasted by effective and realistic evaluation of projects using scientific parameters like EVA method that create additional value and not anything else.

(b) EPS not the real indicator :

The entire study also has found that both EPS and EVA move in the same direction. Whenever there is rise in EPS EVA follows and vice versa. However still the study claims that EVA is a more scientific performance measure because in most of the cases analyzed above the EVA per share is far less than EPS. In some case the EVA per share is half of EPS. This implies that the procedure adopted in determining EPS over estimates the company's earnings. This may create a false hallow behind the company's earnings. Further it may tempt the management to retain more amount of earnings towards reinvestment and not distributing them as dividend. However in reality the company's earnings may not be as high as revealed by EPS.

In addition to the above it also concludes that to forecast true and realistic future cash flow both in the long and in the short run, the ECONOMIC VALUE ADDITION method is the most suitable one!

Limitations of EVA method

(1) As EVA is an absolute and not a relative measure, it is difficult to use the technique for inter firm and inter divisional comparisons. It is difficult in the sense, allowance with respect to size and volume have to be done to facilitate such comparisons.

(2) EVA is distorted by inflation, as interest payments may fluctuate heavily between periods of high and low inflation and between no inflation and inflation prone nations.

(3) EVA also yields different results for different asset structure. Companies with a lot of new investments have lower EVA than their true profitability and company with many old investments would have bigger EVA than their true profitability.

Conclusion

The entire study concludes that, true share value maximization can take place, only when a company is able to project its cash inflows as much accurately and scientifically possible. It is only this correct projection of consistent cash flows both in the long and in the short run that will help any company to evaluate and decide on its future projects.

Further it is the efficient evaluation of future projects, which will give consistent returns and create value for the share holder. In the evaluation process, it is not only the future interest and inflation rates that should be considered, but also the expectations of the equity share holders in terms of opportunity cost that has to be taken into account.

As an investor, the common man can effectively value his return on investments by the Economic Value created by the company shown as Economic Value added. It is because EVA is the most effective indicator of the cash flows of a company, than the EPS. Ultimately it is neither the debt equity leverage nor the Net profit which determines the value created by any organization, but it is the consistent cash flows both in the long and short run which adds value to the company's capital and maximizes the welfare of the shareholders. ❐

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Notification

The Examination Committee of the Council of ICAI at its 284th meeting decided to open new examination centres at :

(a) Bhilwara (Rajasthan) — (Centre code 430)

(b) Adipur — Kachchhi (Gujarat) — (Centre code 134)

(c) Bahrain — (Centre code 505)

While selling the existing Examination Application forms the Chapters and Regions are requested to inform the students accordingly.

A. Das
Director—Examination

An Empirical Study on Working Capital Management Practices of Selected Indian Pharmaceuticals Companies

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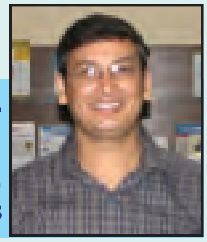

Introduction

It is a well known fact that working capital management has been one of the most important aspects of running a business. Maintaining adequate liquidity in the business without much compromise with profitability is a real challenge to the business houses and therefore, working capital management has got conventional but continuous attention of corporate financial management. Inefficient management of working capital has been the principal factor behind many corporate failures. Moreover, with the passage of time and with the advancement of technology there has been a paradigm shift from traditional approaches in the management of current assets and current liabilities. At present many companies are following aggressive and efficient working capital management policies for running their businesses at no extra cost. Cash credit facility available from banks has stimulated this concept more prominently. Not only that many companies are even regularly maintaining negative net working capital in course of their business operations successfully. Due to cash credit facility companies are allowed to borrow money in times of need and repaying the same as soon as it has surplus cash, which ultimately reduces interest burden and gives fuels to profitability.

In this perspective, the present paper makes an attempt to analyze the working capital management practices of four selected Indian Pharmaceuticals Companies over a period of 10 years from 2001-2010. The remainder of this paper has been organized as follows. Section II highlights the review of related literatures existing in this field. Section III narrates the objectives, database and methodology used in the study. Major findings of the study have been shown in section IV. Section V relates to the analysis of the concept of Zero Working Capital and finally section VI concludes the study.

Review of Literatures

A number of studies have been conducted over a long period of time covering various aspects of working capital management. A brief overview of that is presented here.

Shanmugan and Poornima (2001) observed that effective working capital management is still most crucial for firms' success. From the interviews with the CEOs of the sample companies they also noticed that every CEO spent majority of time on working capital management (WCM). Rao & Rao (1991), in their study showed that the Tandon committee norms were producing better results in managing working capital. Swamy (1997), in his study on agricultural societies, postulated that balancing of liquidity and profitability is a major problem in WCM. Chander & Kumar (2004) observed that need based method is the most popular one in determining working capital requirements and bank finance is the most important one in working capital financing just after own funds. Cecilia & Nino (2000), in their study on 88 UK based companies found that letter of credit was a major source of working capital financing there even though factoring services was the prime method in UK. Balls (2003) highlighted the importance of understanding the dynamics of WCM, failure to which was the largest single cause of business failure both in small and medium enterprises. Companies should clearly understand all possible implications of best practices applied in WCM. Rakshit & Chatterjee (2008), in their study on selected Indian FMCG companies observed that most of the companies are maintaining even negative working capital over the years and are using modern banking facilities while managing their working capital.

Strategies focused on management on working capital create value for shareholders (Christopher & Royals, 1999). Ward (2004) found evidence of the increase in EPS due to reduction in cash-to-cash cycle time in WCM. Gupta (2010) also observed that better WCM can help companies to a great extent to accelerate their growth rates vis-à-vis competitors and consequently enhance shareholders' value. Banomyong (2005) opined that working capital can be managed efficiently by lowering cash conversion cycle which helps in generating more sales per unit of money invested in WCM. Deloof (2003) demonstrated that firms can improve profitability by reducing their inventories and period of accounts receivables. Martinez & Solano (2007) also highlighted the same aspect. John (1993) pointed out that cost of financial distress for a company is being influenced by liquidity and working capital management. Ball, et al, 1993 claimed that cash flows of the components of working capital can be considered to be better predictors of growth and future earnings compared to traditional cash flows. Moss & Stine (1993) observed that large firms having greater access to market credit maintain lower level of liquid assets for maintain liquidity and emergency needs compared to small firms having limited access to external credit availability

Objectives, Rationale, Database and Methodology

The principal objective of the paper is to make a comprehensive analysis of the working capital management policies and practices followed by the sample companies over a period of ten years through the study of individual components of the current assets. Moreover the study also attempts to investigate whether the sample companies are following the practice of Zero Working Capital (ZWC) and thereby approaching towards Just-in Time (JIT) system. The study has both practical as well as academic significance as it will help in proper understanding of the working capital management practices of the leading corporations in India. The scope of this study is limited to the ten year period from 2001 to 2010.

Data

The study has considered four selected Indian Pharmaceutical companies and is mostly based on secondary data procured from secondary sources. Capitaline 2000 database package has been extensively used for collecting the financial variables. Published annual reports of the sample companies have also been consulted.

Data Analysis

For measuring the efficiency in working capital management, first of all we have computed Performance Index (PI) which reflects the average performance of the components of current assets. Management of working capital may be considered efficient if the proportionate rise in sales is more than the proportionate increase in current assets over a particular period of time. Naturally, an overall PI of more than unity denotes efficient management of working capital. The PI has been calculated as :

$$PI_{mwc} = [\{(\Sigma Xi_{(t-1)} / Xi_t)\} / N] \times IT$$

Where, IT = Turnover index or sales index defined as S_t / S_{t-1} where S denotes Net Sales.

Xi = Individual components of current assets

N = No. of current assets in the group and

I = 1, 2, 3, 4, ... N.

Here eight items of current assets have been considered viz, raw materials, w-i-p, finished goods, stores & spares, packing materials, debtors, loans and advances and cash & bank balances.

Next, Utilization Index (UI) has been computed by using the model :

$UImwc = R_{(t-1)} / R_t$ where, R = current assets/sales.

Utilization Index (UI) indicates firm's ability in ensuring proper utilization of its current assets as a whole in order to generate sales. This ultimately reflects the operating cycle of the firm which can be shortened by increasing the degree of utilization of the current assets. Hence, a value of UI greater than unity is always desirable.

Finally, we have computed the Efficiency Index (EI) which measures the ultimate efficiency of working capital management of a firm by taking into account both the aspects of performance of the current assets as well as firm's ability of utilizing those current assets. In fact, the efficiency of working capital management depends on both PI as well as UI and not solely on one of these two. Therefore,

Efficiency Index (EI_{mwc}) = PI_{mwc} * UI_{mwc}.

Major Findings of the Study: (Details in Annexure 1)

Performance Index (PI)

Performance Index (PI), as we know denotes the average performance of the current assets' components linked with the proportionate increase in sales. Novartis India has reported a PI of more than unity in 7 out of 10 years, highest being in 2004 (4.266). However, from 2008 onwards, a declining trend in PI of the company has been observed. Abbott has shown satisfactory PI (PI >1) in 6 out of 10 years. GlaxoSmithKline and Aventis Pharma have also shown almost identical performance of PI over the study period.

In ascertaining PI, Turnover Index has a major role to play. By definition, Turnover Index of more than unity can be considered favourable for the company. Here all the sample companies have reported satisfactory results in this aspect. For instance, this index is more than unity in 8 years for Novartis India, in 9 years for Abbott India, in 8 years for Aventis Pharma and in all the years for GlaxoSmithKline during the entire study period.

Hence, it may be postulated that sample companies have been able to perform well in respect of their current assets' components in most of the cases, although not throughout the entire study period.

Utilization Index (UI)

It may be recapitulated that Utilization Index (UI) reflects firm's ability in utilizing its current assets with an aim of generating sales and ultimately shows the operating cycle of the business. If the proportionate rise in sales is more than proportionate rise in current assets, UI will give a value of more than unity which is always desirable. The results show that for Novartis India, the UI is more than unity in only 2 out of 10 years and is close to unity in 4 years which cannot be taken as satisfactory. Abbott India, on the other hand, has shown its UI of greater than 1 in 6 years over the study period implying a fair degree of its ability in managing its current assets for the purpose of generating sales revenue and shortening the operating cycle. Aventis Pharma and GlaxoSmithKline have reported a poor picture in this regard. The UI of Aventis Pharma has been lower than unity over the entire study period while for GlaxoSmithKline, it is more than unity in only 3 years over the study period.

Efficiency Index (EI)

Considering both the performance of the individual components of current assets as well as firm's ability to utilize those assets, efficiency index (EI) is derived and it reflects the overall efficiency in working capital management. The results show that Novartis India and Abbott India have been able to ensure satisfactorily the overall efficiency in working capital management as the EI is more than unity in 7 years for Novartis India and 6 years for Abbott India during the study period. Aventis Pharma, on the other hand, has reported unsatisfactory performance in this regard since the EI of the company is less than 1 in 8 out of 10 years. Improper utilization of current assets of the company (UI<1 during the entire study period) might be responsible for this. A similar type of picture is evident for GlaxoSmithKline too. The company has revealed EI of more than unity in only 4 years over the study period and here also the improper utilization of the current assets of the company might be attribute to this fact (UI < 1 in 7 out of 10 years). However, the situation is slightly better than Aventis Pharma. The results also show a wide fluctuation in EI values over the study period for all the companies under the sample except Aventis Pharma.

Zero Working Capital (ZWC) (Details in Annexure 2)

Zero Working Capital (ZWC) implies Inventories + Receivables - Payables (Brigham and Houston, 2009). With regard to the working capital management, only average inventories, average receivables and average payables are considered as they form major part of operational cash flows. Multiple benefits can be obtained by following the concept of ZWC. The permanent reduction in working capital may result in less financial costs which could motivate the companies to produce and deliver faster and could be helpful in gaining further business (Jain, Singh and Kapoor, 2011). It may also ensure saving in operating costs by reducing inventories, storage costs and loss of obsolescence (Brigham and Houston, 2009).

Inventories and receivables are the major constituents of current assets having impact on turnover position. Suppliers, on the other hand, finance inventories through accounts payables. Hence, it is postulated that companies having this figure (ZWC) close to zero or even negative, can be defined as just-in-time companies with regard to working capital management (Jain, Singh and Kapoor, 2011). Thus, to investigate whether the companies under the sample are following the concept of ZWC, the net working capital has been ascertained as:

NWC = Inventories + Receivables – Payables.

Moreover, we have also computed the operating cycle current ratio (OCCR) in order to understand the concept of ZWC. It has been derived as : OCCR = (I+R) / P

Where, I= Inventories, R= Receivables and P= Payables.

Results (Details in Annexure 2)

From Annexure 2, it appears that GlaxoSmithKline is following the concept of ZWC as the NWCPRI figures are really low and are even negative in 3 financial years. The OCCR has also been found close to one in 8 out of 10 year study period implying thereby that, the company is making effort to meet its working capital needs through its suppliers. For other sample companies, such a strong evidence of following the ZWC concept has not been observed. However, the NWCPRI figures maintained by them over the study period are practically low and the OCCRs are also not very high in most of the cases. Combining these two aspects this may be taken as a slow journey towards ZWC concept and an effort towards meeting their working capital needs through their suppliers.

Conclusion

In the present paper attempts were made to examine the working capital management practices of the four selected Indian Pharmaceutical companies. We have observed satisfactory performance of the sample companies with regard to the average performances of their current assets' components. However, only Abbott India has reported its competency in ensuring proper utilization of its current assets reflected through the utilization index. From the angle of overall efficiency in WCM, Novertis India and Abbott India have registered satisfactory performance over the study period unlike the other two sample companies (Viz, Aventis Pharma and Glaxo Smith Kline). It has also been noticed that GlaxoSmithKline has been working with the concept of ZWC and other sample companies are likely to follow that trend gradually. Finally it should be mentioned that the study suffers from one limitation. Here we have taken simple average for computing the PI of the current assets' components instead of considering weighted average. The reason behind is it is practically very difficult to assign proper weightage to each and every component in a judicious manner just from the secondary database. It depends on a variety of factors and companies' policies. Nevertheless, the study is expected to provide a fair analysis regarding the working capital management practices of the sample companies.

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Annexure 1 : Company wise details of Working Capital Indices

Novartis India										
Year	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**
Net Sales	623.92	600.51	553.13	540.85	525.30	471.20	504.71	471.15	455.38	431.99
TURNOVER INDEX	1.039	1.086	1.023	1.030	1.115	0.934	1.071	1.035	1.054	0.544
Current Assets	736.24	637.23	551.02	478.03	461.97	344.55	244.85	240.89	191.03	230.84
CA / Sales	1.180	1.061	0.996	0.884	0.879	0.731	0.485	0.511	0.419	0.534
Utilization Index	0.899	0.939	0.887	0.995	0.831	0.663	1.054	0.820	1.274	0.918

Component wise Indices										
Year	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**
Raw Materials	3.230	2.200	7.230	3.900	3.100	3.190	3.160	1.220	1.170	1.520
RM INDEX	0.681	3.286	0.539	0.795	1.029	0.991	0.386	0.959	1.299	12.770
Work-in Progress	0.000	0.000	0.290	0.510	0.470	5.150	0.510	11.470	6.330	9.740
WIP INDEX	0.000	0.000	1.759	0.922	10.957	0.099	22.490	0.552	1.539	1.601
Finished Goods	47.700	47.240	58.880	62.460	57.260	55.400	45.420	57.620	45.270	40.610
F G INDEX	0.990	1.246	1.061	0.917	0.968	0.820	1.269	0.786	0.897	2.366
Stores and Spares	0.000	0.000	0.000	0.000	0.000	1.940	1.560	1.650	1.630	1.700
S&SP INDEX	0.000	0.000	0.000	0.000	0.000	0.804	1.058	0.988	1.043	1.794
Packing Materials	0.450	0.660	1.250	0.530	0.490	0.180	0.140	0.020	0.340	0.430
PM INDEX	1.467	1.894	0.424	0.925	0.367	0.778	0.143	17.000	1.265	14.000
Sundry Debtors	46.320	45.490	39.380	42.420	39.610	41.590	68.670	47.590	60.380	49.610

(contd.)

(contd.)

S D INDEX	0.982	0.866	1.077	0.934	1.050	1.651	0.693	1.269	0.822	2.666
Cash and Bank	57.190	53.750	15.200	5.310	125.860	64.750	8.660	44.890	18.150	69.400
C&B INDEX	0.940	0.283	0.349	23.702	0.514	0.134	5.184	0.404	3.824	0.406
Loans and Advances	565.860	474.010	415.950	349.690	224.370	161.520	99.080	62.710	44.260	46.660
L&A INDEX	0.838	0.878	0.841	0.642	0.720	0.613	0.633	0.706	1.054	1.901
TOTAL OF THE INDICES	5.898	8.453	6.050	28.836	15.606	5.890	31.855	22.663	11.742	37.504
Average Index	0.737	1.057	0.756	3.604	1.951	0.736	3.982	2.833	1.468	4.688
Performance Index	0.766	1.147	0.773	3.711	2.175	0.687	4.266	2.931	1.547	2.551
EFFICIENCY INDEX (PI*UI)	0.689	1.077	0.686	3.693	1.808	0.456	4.495	2.405	1.971	2.342

Abbott India

Year	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Net Sales	1036.00	794.12	695.64	622.42	534.12	507.68	467.97	431.97	408.20	355.89
TURNOVER INDEX	1.305	1.142	1.118	1.165	1.052	1.085	1.083	1.058	1.147	0.979
Current Assets	406.77	341.78	301.96	145.66	132.40	118.15	70.82	78.75	94.43	101.42
CA / Sales	0.393	0.430	0.434	0.234	0.248	0.233	0.151	0.182	0.231	0.285
Utilization Index	1.096	1.009	0.539	1.059	0.939	0.650	1.205	1.269	1.232	0.919

Component wise Indices

Year	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Raw Materials	3.470	2.090	2.860	0.830	0.920	0.820	0.420	0.530	3.070	4.070
RM INDEX	0.602	1.368	0.290	1.108	0.891	0.512	1.262	5.792	1.326	0.833
Work-in Progress	0.730	0.880	0.440	0.340	0.440	0.430	0.190	0.760	2.690	0.600
WIP INDEX	1.205	0.500	0.773	1.294	0.977	0.442	4.000	3.539	0.223	3.467
Finished Goods	123.340	98.120	87.760	84.640	52.770	42.800	29.200	32.240	41.720	52.150
F G INDEX	0.796	0.894	0.964	0.623	0.811	0.682	1.104	1.294	1.250	1.067
Stores and Spares	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
S&SP INDEX	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Packing Materials	1.050	1.290	1.060	0.580	0.610	0.160	0.100	0.220	0.620	0.570
PM INDEX	1.229	0.822	0.547	1.052	0.262	0.625	2.200	2.818	0.919	0.965
Sundry Debtors	65.280	44.400	32.370	30.340	23.520	20.010	20.320	23.370	23.090	22.870
S D INDEX	0.680	0.729	0.937	0.775	0.851	1.015	1.150	0.988	0.990	0.854
Cash and Bank	188.510	175.610	163.540	17.220	13.180	9.350	12.510	10.480	10.690	9.990
C&B INDEX	0.932	0.931	0.105	0.765	0.709	1.338	0.838	1.020	0.935	0.243
Loans and Advances	20.490	16.540	11.890	10.500	39.640	43.270	6.890	9.450	11.290	9.960
L&A INDEX	0.807	0.719	0.883	3.775	1.092	0.159	1.372	1.195	0.882	1.159
TOTAL OF THE INDICES	6.251	5.964	4.500	9.394	5.594	4.774	11.925	16.647	6.525	8.587
Average Index	0.781	0.745	0.563	1.174	0.699	0.597	1.491	2.081	0.816	1.073
Performance Index	1.019	0.851	0.629	1.368	0.736	0.647	1.615	2.202	0.936	1.051
EFFICIENCY INDEX (PI*UI)	1.117	0.858	0.339	1.449	0.691	0.421	1.945	2.794	1.152	0.966

Aventis Pharma

Year	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Net Sales	1084.95	974.41	995.37	864.04	882.10	808.67	734.81	656.24	614.67	547.82
TURNOVER INDEX	1.113	0.979	1.152	0.980	1.091	1.101	1.120	1.068	1.122	1.433
Current Assets	1239.17	1043.34	923.95	780.47	721.33	563.31	430.12	317.10	269.27	236.01
CA / Sales	1.142	1.071	0.928	0.903	0.818	0.697	0.585	0.483	0.438	0.431
Utilization Index	0.937	0.867	0.973	0.905	0.852	0.840	0.826	0.907	0.983	0.965

Component wise Indices

Year	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Raw Materials	94.860	101.420	64.860	50.750	47.010	46.910	24.650	20.400	21.010	24.520
RM INDEX	1.069	0.640	0.782	0.926	0.998	0.525	0.828	1.030	1.167	0.851
Work-in Progress	23.650	21.340	28.210	19.580	18.160	15.270	16.450	18.750	7.080	8.840
WIP INDEX	0.902	1.322	0.694	0.927	0.841	1.077	1.140	0.378	1.249	0.819
Finished Goods	122.810	108.380	79.480	110.470	93.630	74.160	60.540	47.980	50.270	33.560
F G INDEX	0.883	0.733	1.390	0.848	0.792	0.816	0.793	1.048	0.668	1.288
Stores and Spares	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
S&SP INDEX	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Packing Materials	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
PM INDEX	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Sundry Debtors	60.440	52.730	89.500	57.500	68.490	51.030	91.820	45.960	34.280	48.230
S D INDEX	0.872	1.697	0.642	1.191	0.745	1.799	0.501	0.746	1.407	0.708
Cash and Bank	655.350	585.950	497.370	390.620	386.120	294.390	167.310	127.120	115.420	52.140
C&B INDEX	0.894	0.849	0.785	0.988	0.762	0.568	0.760	0.908	0.452	0.084
Loans and Advances	256.740	143.720	136.320	124.940	80.770	60.120	50.370	38.330	23.460	49.790
L&A INDEX	0.560	0.949	0.917	0.646	0.744	0.838	0.761	0.612	2.122	0.984
TOTAL OF THE INDICES	5.180	6.189	5.211	5.527	4.883	5.625	4.781	4.721	7.064	4.734
Average Index	0.648	0.774	0.651	0.691	0.610	0.703	0.598	0.590	0.883	0.592
Performance Index	0.721	0.757	0.750	0.677	0.666	0.774	0.669	0.630	0.991	0.848
EFFICIENCY INDEX (PI*UI)	0.676	0.657	0.730	0.613	0.567	0.650	0.552	0.571	0.974	0.818

GlaxoSmithKline Pharmaceuticals Ltd.

Year	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Net Sales	2114.03	1872.65	1665.29	1570.3	1538.42	1470.38	1363.48	1093.17	1047.27	1010.31
TURNOVER INDEX	1.129	1.125	1.060	1.021	1.046	1.078	1.247	1.044	1.037	1.188
Current Assets	2513.47	2166.7	1429.73	587.6	1801.97	1571.27	1461.69	1138.22	1164.43	497.16
CA / Sales	1.189	1.157	0.859	0.374	1.171	1.069	1.072	1.041	1.112	0.492
Utilization Index	0.973	0.742	0.436	3.130	0.912	1.003	0.971	1.068	0.443	0.894

Component wise Indices

Year	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Raw Materials	62.31	54.92	62.35	42.43	44.57	35.88	43.67	39.08	38.48	35.64
RM INDEX	0.881	1.135	0.681	1.050	0.805	1.217	0.895	0.985	0.926	1.242
Work-in Progress	51.76	41.86	36.9	29.85	32.74	31.53	30.8	27.52	31.7	47.8
WIP INDEX	0.809	0.882	0.809	1.097	0.963	0.977	0.894	1.152	1.508	0.840
Finished Goods	162.93	152.65	125.19	129.92	159.76	148.44	149.71	131.74	123.05	94.56
F G INDEX	0.937	0.820	1.038	1.230	0.929	1.009	0.880	0.934	0.768	0.899
Stores and Spares	4.54	3.59	3.94	3.76	3.88	2.28	2.32	2.55	2.37	2.75
S&SP INDEX	0.791	1.097	0.954	1.032	0.588	1.018	1.099	0.929	1.160	0.709
Packing Materials	0	0	0	0	0	0	0	0	0	0
PM INDEX	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Sundry Debtors	47.02	53.73	57.94	37.77	60.45	67.39	76.06	67.11	81.93	109.19

(contd.)

(contd.)

S D INDEX	1.143	1.078	0.652	1.600	1.115	1.129	0.882	1.221	1.333	1.145
Cash and Bank	1948.08	1672.6	906.54	154.99	35.03	47.52	63.38	59.41	140.56	56.74
C&B INDEX	0.859	0.542	0.171	0.226	1.357	1.334	0.937	2.366	0.404	0.287
Loans and Advances	171.69	135.07	198.17	158.92	1430.35	1197.05	1035.78	765.94	697.79	109.15
L&A INDEX	0.787	1.467	0.802	9.000	0.837	0.865	0.739	0.911	0.156	0.563
TOTAL OF THE INDICES	6.206	7.022	5.106	15.236	6.593	7.548	6.327	8.498	6.256	5.684
Average Index	0.776	0.878	0.638	1.904	0.824	0.943	0.791	1.062	0.782	0.710
Performance Index	0.876	0.987	0.677	1.944	0.862	1.017	0.986	1.109	0.811	0.844
EFFICIENCY INDEX (PI*UI)	0.852	0.732	0.295	6.085	0.787	1.021	0.958	1.184	0.359	0.754

Annexure 2 : Calculation for Zero Working Capital

Novartis India

Year	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Inventories	51.38	50.1	67.65	67.4	61.32	65.86	50.79	71.98	54.74	54
Receivables	46.32	45.49	39.38	42.42	39.61	41.59	68.67	47.59	60.38	49.61
Inventories + Receivables	97.7	95.59	107.03	109.82	100.93	107.45	119.46	119.57	115.12	103.61
Payables	99.69	89.24	72.68	67.3	69.28	72.46	66.11	76.95	71.53	72.21
Inventories + Receivables – Payables	-1.99	6.35	34.35	42.52	31.65	34.99	53.35	42.62	43.59	31.4
Working Capital Current Ratio (WCCR)	0.980	1.071	1.473	1.632	1.457	1.483	1.807	1.554	1.609	1.435

Abbott India

Year	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Inventories	128.59	102.38	92.12	86.39	54.74	44.21	29.91	33.75	48.1	57.39
Receivables	65.28	44.4	32.37	30.34	23.52	20.01	20.32	23.37	23.09	22.87
Inventories + Receivables	193.87	146.78	124.49	116.73	78.26	64.22	50.23	57.12	71.19	80.26
Payables	97.96	57.9	80.96	41.54	38.01	37.4	34.42	35.12	54.08	63.18
Inventories + Receivables – Payables	95.91	88.88	43.53	75.19	40.25	26.82	15.81	22	17.11	17.08
Working Capital Current	1.98	2.54	1.54	2.81	2.06	1.72	1.46	1.63	1.32	1.27
Ratio (WCCR)										

GlaxoSmithKline Pharmaceuticals Ltd.

Year	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Inventories	281.54	253.02	228.38	205.96	240.95	218.13	226.5	200.89	195.6	180.75
Receivables	47.02	53.73	57.94	37.77	60.45	67.39	76.06	67.11	81.93	109.19
Inventories + Receivables	328.56	306.75	286.32	243.73	301.4	285.52	302.56	268	277.53	289.94
Payables	356.71	316.66	271.6	244.78	247.72	257.56	219.48	206.08	203.83	151.7
Inventories + Receivables – Payables	-28.15	-9.91	14.72	-1.05	53.68	27.96	83.08	61.92	73.7	138.24
Working Capital Current Ratio (WCCR)	0.921	0.969	1.054	0.996	1.217	1.109	1.379	1.300	1.362	1.911

Aventis Pharma

Year	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Inventories	241.32	231.14	172.55	180.8	158.8	136.34	101.64	87.13	78.36	66.92
Receivables	60.44	52.73	89.5	57.5	68.49	51.03	91.82	45.96	34.28	48.23
Inventories + Receivables	301.76	283.87	262.05	238.3	227.29	187.37	193.46	133.09	112.64	115.15
Payables	173.7	158.17	138.44	114.56	110.41	84.56	66.47	100.65	97.31	107.68
Inventories + Receivables – Payables	128.06	125.7	123.61	123.74	116.88	102.81	126.99	32.44	15.33	7.47
Working Capital Current Ratio (WCCR)	1.74	1.79	1.89	2.08	2.06	2.22	2.91	1.32	1.16	1.07

Cost Audit in Textile Industry—Check List

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As a sequel to our earlier article on check list for Cost Audit in Pharmaceutical Industry, published in this Journal, we thought of sharing our experience by preparing a check list for Cost Audit in Textile Industry.

While this is not intended to be SOP, we feel that this article would enhance the quality of audit and some add-on values to the auditee.

Indicative list of functional areas to be covered for Cost Audit is summarized :

1. Raw Materials
2. Waste—Soft waste & hard waste
3. Stores & Spares, Process materials, Colour/ Chemicals & Packing materials
4. Wages & Salaries
5. Power
6. Steam
7. Water
8. Workshop/Repairs & Maintenance
9. Fixed Assets/Depreciation
10. Overheads
11. Sales
12. Export Sales
13. Goods for self-consumption
14. Work-in-progress
15. Finished Goods
16. Costing Department
17. Accounts Department
18. Cost Statements
19. Production Records—Spinning, Weaving, & Processing
20. Statistical Records
21. QC/I.E./R & D/Testing
22. Reconciliation of Cost and financial Accounts?

Raw Materials

(a) What is the system of raw material purchasing?
— Through Agents
— Through own staff

(b) Whether Lot Testing Report is prepared? (Whether 100% Testing)

(c) What is the treatment given for inferior quality of raw materials received (whether returned or rebate taken)?

(d) Whether stock is adequately covered for Insurance?

(e) Whether Profit/Loss on sale of raw materials is omitted from cost?

(f) Which weight is considered for accounting—actual or bill?

(g) Whether payment weight is arrived at after deducting true weight, and moisture allowance in monsoon season?

(h) Whether 'Issue Slip' is prepared for raw materials?

(i) What is the mixing-wise issue figures
— whether daily issue to Blow Room, or
— whether actual bales opened and mixing prepared?

(j) Method of disposal of packing materials used for bales of cotton etc?

(k) Whether weight of Bardana and Patti of cotton bales is calculated on the basis of standard weight?

(l) What is the treatment of 'carrying charges' in cost?

(m) Raw materials Purchase Inward Expenses—How charged in lot-wise issues?

(n) What is the 'issue rate' and 'weight' for valuation of issue?

(o) What is the method of valuation of closing stock? Lot-wise or FIFO method in accounts and costing?

(p) To check reconciliation figures of consumption at the end of the year—figures as per Accounts and as per cumulative of monthly consumption Report of cotton Department—What is the treatment for discrepancies?

(q) To scrutinise the List of non-moving variety of raw materials in stock.

(r) To compare cotton/ Fibres to yarn recoveries %

month-wise mixing-wise blend-wise and carded & combed separately.

(s) In case of imported cotton/fibres, what is the treatment given in cost for foreign Exchange Rate Difference?

(t) Outstanding contract for supply of raw materials.

(u) Whether lower rate contract is pending and same material with higher rate contract is executed?

(v) Payment of Fibre Purchase should be on the basis of Mill-gate weight.

(w) Records of Raw Material sent out for job work /processing.

WASTE

Soft Waste

(a) Whether tally of monthly analysed/compiled figures with yearend figures as per Accounts is done?

(b) Useable soft waste for self-consumption for which record is to be kept—Whether valued at the average mixing rate for the month in which it is used?

(c) What is the weight of soft waste recorded?

- before willowing
- after willowing.

(d) Whether yearly statement of soft waste A/c (opening stock add Receipts, less closing stock, less sale) is prepared?

(e) What is the basis of bifurcation of common waste to various mixings and processes?

(f) To verify waste records—Useable & Saleable—soft waste, hard waste & chindi, invisible loss.

Hard Waste

(a) To check record of process-wise and category wise analysis of Hard-waste collected, consumed/sold and stock in quantity and value.

(b) Whether Tally of monthly analysis with yarned figures as per accounts is done?

(c) Mixed-yarn sale—whether treated as —

- hard waste sale
- regular yarn sale?

(d) Whether cost of reeling or winding mixed yarn is identified and deducted from the recoveries of the said sale yarn?

Stores & Spares, Process Materials, Colour/ Chemicals & Packing Materials

(a) Whether sub-stores are kept for —

- colour—chemicals
- sizing materials
- packing materials

(b) Whether perpetual inventory system is in vogue?

(c) Whether inventory of shop-floor is taken?

(d) Is a list of pending 'advances' to suppliers prepared, at least every quarter, and whether proper follow-up done?

(e) Whether stock is adequately covered for Insurance?

(f) Are Bin Card/Kardex or similar records maintained?

(g) Whether 'Loan Register' is kept properly?

(h) Process materials—colour and chemicals, sizing materials, packing and baling materials

- % variation in standard recipe materials and actual material cost—whether significant?
- How variations are adjusted in cost?

(i) Whether recovery of caustic soda solution in mercerising process done?

(j) Whether standing bath for dyeing for standard colours prepared?

(k) Whether inventory levels are fixed—minimum-maximum and ordinary level?

— A.B.C. Analysis.

(l) Whether studies are made on the life of important stores & spares items of high consumption value so as to verify the quality of supply in consumption with norms e.g. shuttles, picker, bobbins, spindles etc.

(m) Consumption of shuttle, bobbin etc. (size-wise) in qty. & value.

(n) A note on the system and procedure of stores Department—indenting, ordering, receipt, issue and stock.

(o) Rejected materials—how soon lifted by parties.

(p) Get list of rejected materials lying with the company for more than 6 months.

(q) System of approval of materials—how soon it is done.

(r) Scrutiny of list of slow-moving and non-moving items—(above 24 months) to be done, as to why ordered? Method of disposal.

(s) System of physical inventory—stores and sub-stores.

(t) Method of valuation of issues.

(u) Treatment of shortage/excess in cost.

(v) Method of valuation of closing stock.

(w) Procurement charges—how considered in the issue rates?

(x) Procedure of capitalisation of stores items.

(y) System of scrap sale and treatment in cost—whether scrap is segregated before sale, i.e. copper, brass etc?

(z) What is the system of return of materials from Department to Store?

(aa) What is the treatment of profit/loss of sale of stores?

(bb) Method of Cost per unit of stores and spares.

(cc) The ratio of stores and spares consumption per unit of production activity like per 1,000 spindle shifts or per 100 loom shifts should be developed for year to year comparison.

(dd) Cost of copper Roller used for Roller Printing machinery—How treated—Whether inventory prepared to ascertain the copper loss? It should be added to engraving expenses. Same for screen frames, Rubber Blankets used in processing.

(ee) Whether stock of non-stocking items is kept?

(ff) Whether the rejected materials are lifted/ returned in time, anything from this in stock?

(gg) Whether advances given to suppliers are adjusted regularly?

Wages & Salaries

Wages

(a) What is the system for cost centre-wise and category-wise allocation of P.F. E.S.I. & other Fringe Benefits

– Actual
– % basis?

(b) Whether cost centre-wise and category-wise daily attendance register is kept and totaled for the month?

(c) Whether any variation between 'total man-days' as per above and as per wage payment muster?

(d) What is the system of paid leave (Casual & Privilege leave) –

– through muster
– voucher payment.

(e) Cost centre-wise analysis of paid leave—whether done?

(f) Whether year-end reconciliation of wages, over time, paid leave, P.F., E.S.I. as per Time Office and as per Accounts Ledger is done?

(g) Whether monthly Wage Register checking of calculation etc. is done?

– 100% checking
– test check
– number of times discrepancies noticed in checking.

(h) Whether cross-checking of piece-rate wages is done?

(i) System and procedure of Time office/wages & Salary Department.

(j) Method followed for allocation of cost centre-wise wages—treatment of badli workers.

(k) What is the system of overtime payment –

– reason-wise analysis
– to control excessive overtime
– cost centre-wise analysis—how done?
– What is the rate of overtime payment?

(l) What is the system of holiday working payment & extra payment?

(m) Wages booking for capital job—how done?

(n) Whether any incentive scheme of wage payment—its usefulness and effect?

(o) System of Bonus computation.

(p) Whether lay off wages are recorded separately and excluded from cost?

(q) Unclaimed wages/Bonus of more than 3 years-whether sent to Welfare Commissioner?

(r) What is the system of gratuity –

– Accounting entry basis
– accrual or actual payment basis.

(s) Whether record of idle-time of labour is maintained?

Staff Salaries

(a) What is the system of charging P.F. & E.S.I. to Salaries?

– Actual
– percentage basis?

(b) Whether year-end reconciliation of salaries as per 'pay sheets' and as per Accounts Ledger is done?

(c) System followed for cost centre-wise allocation of staff salaries.

(d) What is the system of overtime payment?

Power

(a) Type of power used—Grid, Own generation-turbine, D.G. set, Purchased/wheeled/borrowed from -others?

(b) Table for month-wise power consumption cost, rate, power factor, contracted demand (MD), billed (MD) etc.

(c) What is power factor?—Whether any scope to improve it by installing capacitors?

(d) Whether main meters and sub-meters are fixed?

(e) Method of allocation of power cost to various cost centres, if technical estimate-variation between calculated figure and actual bill figure.

(f) Power Bill—penalty, fines, interest for late payment, (or discount not availed) bill for previous year/arrears—their treatment in cost.

(g) Own generation—(D.G.Set/Turbine) capacity, utilization % and efficiency level—Whether solar heating system is wise?

(h) Whether solar heating system is in use?

Steam

(a) Whether Meters for CO_2, Steam generation and water consumption are installed and working?

(b) Whether Boiler efficiency is worked out on regular basis?

(c) What is the method of allocation of steam cost to various cost centres

– sub-meters

– technical estimates (% variation between calculated consumption and actual generation).

(d) Whether LSHS (low sulphur Heavy Stock) oil is used in Boiler?

(e) Whether proper lagging of steam and condensate pipeline done to avoid steam heat leakage?

(f) Whether proper treatment of feed water for hardness etc. is done before use in ion boiler?

(g) Whether the system of condensate return to Boiler for heating feed water is in force?

(h) Whether waste heat recovery being done

– Exhaust stenter flash steam be condensed

– It may be fed to any low pressure machine like jigger, soaper, washing machine.

(i) Whether sufficient number of economisers are installed on Boiler to reclaim heat from the exhaust gases of the Boiler?

(j) Whether Boiler performance is measured for –

– Fuel firing rate – Ash to coal ratio
– Steam to fuel ratio
– Feedwater meter
– Steam meter
– Flue gas analysis
– heat balance.

(k) Type of Boilers and number of Boilers with capacity.

(l) What are the types of fuel used – Coal, Pet coke, Lignite, Furnace Oil, Gas?

(m) To verify monthly figures of ratio of steam to fuel and steam to water.

(n) What is the percentage of Coal short-received during the year and its treatment in cost? – Whether claim raised for the shortage?

(o) Credit for sale of coal Ash after adjusting expenses involved for removal should be verified and accounted for after proper scrutiny of ash to coal ratio.

Water

(a) What are the sources of water – municipal, river, tube well?
(b) Whether rain water harvesting system in use?
(c) Whether Water Meters are fixed and working for water supply received from outside?
(d) Whether any reuse of water is made in processing?
(e) Whether water treatment Plant or water softening Plant is in use?
(f) What is the basis of allocation of water cost to various cost centres

– Meter reading
– technical estimates.

Workshop/Repairs & Maintenance

(a) Whether direct materials – spare parts etc. purchased/received from stores are directly charged to the respective cost centres? Based on the issue slip?

(b) Whether capitalization of part of workshop expenses is done?

(c) What is the basis of apportionment of cost of workshop/repairs & maintenance to various cost centres.

(d) In case spare parts are produced in the Workshop/Foundry etc, how cost of such parts is calculated and charged to the cost centre?

(e) How is the economy of the workshop measured?

Fixed Assets/Depreciations

(a) Whether a register of all the assets (including fully Depreciated Assets) maintained?

(b) Whether Assets Register shows cost centre-wise Assets, 'block value' and 'depreciation' – for Building, Machinery and other Assets?

(c) How cost centre-wise depreciation is compiled?

(d) What are the methods for apportionment of depreciation on Common Assets?

(e) What is the method of absorption of depreciation to products?

(f) Whether depreciation on any Assets is more/ less than specified in Financial Accounts?

(g) How often physical verification of Assets made?

(h) Whether copper Roller, Rubber sleeve, etc. are capitalized or treated as deferred revenue expenditure?

(i) Which are the items considered for capitalisation (erection charges, labour, stores, overheads etc.)?

(j) Whether Erection Report is prepared?

(k) What is the justification for old machinery – sold during the year?

(l) Treatment of Depreciation for idle assets/under utilized assets in cost records.

Overheads

(a) Whether analysis of S & D Expenses into export, local-cloths, yarn sale etc. done?
(b) Whether cost of capitalisation includes overheads?
(c) How far cost centre-wise analysis of overheads is done?
(d) What are the bases of apportionment of – Factory Overheads, interest, to various cost centres/products?

(e) What are the bases of absorption of Factory, Administration and S& D. overheads to products?

(f) What are the bases followed for apportionment of common expenses to 'Textiles' and 'Other Activities'?

Sales

(a) Whether sort-wise and process-wise analysis of cloth sales into fresh, fents-rags-separately for export and inland sale in terms of meters and value; being done?

(b) Whether country-wise analysis of export sales is done?

(c) Whether yarn sales analysis—count wise- blend-wise-pack-wise in kgs and value is done?

(d) Whether export incentives and benefit are analysed sort-wise?

(e) Whether D/N. & C/Ns are adjusted in sales analysis figures ?

(f) Whether reconciliation of sales analysis figures as per cost records done with Accounts Ledger?

(g) Whether quantity reconciliation as per sales and as per packing statement is done?

(h) Whether reconciliation of sales figures with Excise records is done?

(i) What is the treatment of C/N issued for discounts and Rebates in Accounts Ledger and Cost Accounts?

(j) What is the treatment given for sale of chindis in cost account?

(k) What is the treatment given for Mixed Yarn sold for Cost Accounts?

(l) Scrutiny of no. of bales sold but not lifted by the party.

Export Sales

(a) Whether country-wise and sort-wise analysis of export in quantity and value is done?

(b) Whether export expenses are properly analysed and FOB realization is arrived at?

(c) What is the method of recording export incentives : (a) receipt (b) accrual basis?

(d) Whether export incentives are added/adjusted in the sales realization of various sorts, on actual basis?

(e) Whether exports through merchant and exports to Nepal, Bhutan etc. are treated as company's exports?

(f) Whether separate packing material recipe for export sorts are used?

Goods for Self-consumption

(a) To obtain a list of items used for self-consumption e.g. yarn used for twine (for packing), Back grey cloth (used by Printing Department) etc.

(b) Whether such items are valued at cost?

Work-In-Progress

(a) What is the system of physical stock-taking in vogue in the company?

(b) What is the method of valuation of closing W.I.P.?

Finished Goods

(a) Whether confirmation of company's stock lying with the third party is obtained?

(b) What is the treatment in closing inventory for the third party's stock lying with the company?

(c) What is the method of valuation of closing stock?

(d) What is the treatment of excess/shortage in physical verification?

(e) What is the treatment of goods sold but not lifted and lying with the company?

(f) To scrutinise the list of finished stock items (yarn & cloth) not moved for more than 6 months/12 months.

Costing Department

(a) Whether basic cost records are compiled on regular basis?

(b) Whether cost records are used by Costing Department for management purpose, and for marketing decisions?

(c) Whether following items are omitted from cost records?

Expenses :

- Expenses pertaining to previous year
- Donation and Charities
- Cost of Liquidated Damage
- Loss on impairment of fixed assets
- Abnormal Idle Capacity cost
- Loss on sale of Assets/Investment
- Loss on sale of raw materials/stores etc.
- Loss on trading activities on yarn/cloth etc.
- Gain/Loss on Foreign Exchange
- Any other items of cost—abnormal or non-recurring

Income :

- Income pertaining to previous year
- Profit on sale of assets/investment
- Profit on sale of raw materials/stores etc.
- Profit on trading activities on yarn/cloth etc.

(d) Whether Budgetary Control System is in vogue (if yes, a note on the same be obtained).

(e) What is the costing system for Management purpose?

(f) How far there is integration of cost data used for internal purpose and for costing 'Rules' purposes?

Accounts Department

(a) To scrutinise various closing statements.

(b) Whether Internal Audit System exists in the company? If yes, to study last one year's Report. Whether proper follow-up action was taken by the management? Whether coverage of Internal Audit areas is sufficient?

(c) Interest calculation checking for Working Capital A/c & Term Loan A/c.

Cost Statements

(a) Whether sorts forming 8% of monthly production in Meters cover all the Categories of cloth?

(b) Whether total of such sorts cover 75% of total production in Meters in a year?

(c) Whether separate cost sheets are prepared for Exports and local sorts?

(d) What is the method followed for deciding sorts for preparation of cloth cost sheets (for 75% production) grey and processed?

Production Records

(a) Whether production records for all the cost centers are maintained?

(b) What are the basis of recording production—actual weighment, Metre reading, estimated?

(c) Whether Machine-wise production records for Processing Department is available?

(d) Whether % variation between booked production figures and calculated figures in various cost centers of spinning, weaving and processing is significant?

(e) Which production figures are considered for cost records—booked figures or calculated figures?

Spinning

(a) To check on the percentage of idle spindles on working frames.

(b) To check on 'tare weight' of the doff of ring production and how often it is checked internally.

(c) To check on the average 'doff weight' countwise, ring frame type-wise (i.e. 440 spindles, 376 spindles, 7'' lift, 8'' lift) and compare against norms, if any.

(d) To check on the number of doffer boys in inter, Ring department with the formula of standard workload against each count and lift.

(e) To check on the system of identification of mixingwise laps, cans, containers, bobbins for mixingwise flow of materials in spinning for proper 'yarn yield'.

(f) To check on the system of weighing of useable waste and use in same mixing by identification tags on the boras etc. in mixing room.

(g) To check on the efficiency of various machines in spinning preparatory and ring spg and check the calculation of 100% grams of the various counts in ring department.

(h) To check on the stores & spares consumption recorded individual cost centre-wise or group of cost centers.

(i) To incorporate the weightage of 'siders' effect in inter, ring, mixingwise, countwise etc.

(j) To even out the effect of slow speed and high speed machines in same cost center preparatory and ring frame, irrespective of actual counts worked by chance.

(k) To check the count wrapping tests of spinning with beam wrappings in warping etc.

(l) To go through the SQC reports for Ring Frame Department for breakages rate, evenness of laps to sliver, ends.

Weaving

(a) To check on the 'first piece measurements' of width and grey length of first five/ten pieces for each new sort and average compared with 'sizing particulars'/cloth particulars.

(b) To check on the sizing 'dead loss', sizing recipe-wise, month-wise.

(c) To check the Reed space utilization, percentage.

(d) To check the rewinding percentage to total winding and method of recovering yarn from bad bottoms.

(e) To calculate efficiency on standard RPM of the industry—also of preparatory.

(f) Set lengths-full or half.

(g) Piece lengths to be adjusted according to Sales requirements and in multiples of final packing.

(h) Whether in Loomshed Weavers are provided with 2 shuttles per loom?

Processing

(a) Machine stoppage analysis and utilisation percentage.

(b) Machine efficiency—whether calculated?

(c) Re-cycling of waste water—washer, soaper.

(d) Caustic liquor of mercerising—whether sold/reused?

(e) Preventive maintenance programme for machines.

(f) Ratio of back grey cloth—consumption to printed cloth.

(g) Plant lay out—whether O.K?

(h) Material handling equipment—use of Trolley etc.

(i) Important machines consuming higher steam—whether run for 3 shifts?

(j) Whether lot size is big for process of goods—to reduce down time of machines?

Statistical Records

(a) Whether reason-wise analysis of machine stoppage done for main machine (Spindles, looms, bleaching, finishing etc.)?

(b) Whether process sequence chart is available for spinning, weaving and processing Departments?

(c) Whether quantity tally of cotton fibre to yarn, yarn to grey cloth, is done on regular basis?

(d) Whether various figures as per cost records are reconciled with those of various statutory returns?

(contd. to page 1083)

Combating Black Money : Calling for an Effective Variant of Cash flow tax?

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Black Money has been the most talked about subject in the last two years and there have been mails flying into inboxes packed with information on Black Money like the following :

- Indian (Black) Money stashed abroad in Swiss Banks almost \$1,500 billion, followed by Russia \$470 billion, UK \$390 billion, Ukraine \$100 billion and China with \$96 Billion.
- An amount which is 13 times larger than the nation's foreign debt.
- The total black money accounts for 40% of GDP of India, if all the money comes back to India then that could result in huge growth burst for India.
- A nation where more than 450 million live below the poverty line, which means they make less than \$1.25/day and could probably use an easy cash advance from somebody.
- It means that by bringing back the black money back to the country, India will be able to clear all their foreign debts in 24 hrs.
- Even if all the taxes are abolished, the government can maintain the country easily for 30 years.
- It's been found that about 80,000 people travel to Switzerland every year of whom around 25,000 travel frequently. Those travelling on regular basis must be doing it for some reason.

The above statements should be like ''half the glass full for some and half empty for others''. In whichever way we look at it, it points to an issue that there is a real problem that exists. Even courts have recognised the issue of Black Money consequent to several PILs.

The Supreme Court expressed its concern on Black Money and ordered appointment of Special Investigation Team (SIT) consisting of two retired Supreme Court Judges to track black money stashed abroad. (Source : Outlook India.com—July 04, 2011: Black Money Probe : Supreme Court Appoints SIT).

According to the CBI report released recently, the estimated Black Money stashed abroad is likely to be around \$ 500 bn (Rs.25 lac crores) (Source: The Hindu, February 13th, 2012 : Indians have stashed over \$500 billion in banks abroad : CBI).

What is Black Money?

Black Money is the unaccounted money or the illegal money forming part of the Parallel Economy. Unaccounted money is the income on which Central / State taxes have not been paid. Illegal money is criminal in character and earned by violations of Indian Penal Code, Wildlife Protection Act, Prevention of Corruption Act, NDPS Act etc.

The problem with Black Money is that, not only the State loses its revenue but also that bulk of this money is not available for capital formation as they are hoarded underground or stashed abroad.

Any attempt made by the holder of this money to make it white—either by camouflaging transaction or by import of money through hawalah route—is called a money-laundering Act. Under the Prevention of Money Laundering Act (PMLA) 2002, Money laundering is an offence punishable with rigorous imprisonment up to 7 years and also liable to be fined up to Rs. 5 lakhs.

What are their causes?

1. Fear of taxes

Taxes take away major junk of one's hard-earned money. Very high tax rates, tax laws not meeting any of canons of taxation, illegitimate spending by States have led to demoralising the public and increasing tax evasion through suppression of income. The money siphoned off due to evasion of taxes is substantial (as high as US \$1.50 trillion hidden both in India & abroad).

Indirect taxes, with Excise Duty of 10% and Vat of 14.50%, a total of 25% have to be paid on all standard items other than basic necessities, irrespective of person being rich or poor. People who have taxable income will pay 10%-30% of their income as Income Tax.

Tax laws were meant to tax the rich so that parity between rich and poor do not become wider. But insensitive implementation of tax laws created vested interests and not only the public became corrupt but the law making/implementation agency became more corrupt in the process.

2. Smuggling and Black Marketing

Valuable goods like jewellery may be smuggled in the country to evade customs and other taxes. The only way to bring in contraband goods is smuggling. Black marketing involves purchase and sale of goods in the market without payment of taxes like excise duty, Sales tax etc. It means a Grey market and Parallel Economy created in the process, which undermines the legal economy of a country.

3. Bribery and Corruption

Bribery is where ''No'' becomes changed to ''Yes'' for money. Corruption level will be high in a country where there is a state of lawlessness and also in low income groups/countries.

Transparency international releases the CPI (Corruption Perception Index) for various countries and the level of corruption is captured under four categories viz., Least Corrupt, Medium, Moderately High and High Corrupt. The score levels are measured against a 1-10 points of scale.

India stands 95th place out of 183 countries with a score of 3.1 in 2011 and ranked under Moderately High Corrupt country. Least Corrupt (clean) countries with a score of 9.2 and above are New Zealand (cleanest), Finland, Denmark and Singapore. Afghanistan, Myanmar, North Korea and Somalia (Most Corrupt) are at the bottom of Corruption Index with a score of less than 1.50 and are the High Corrupt countries in the world. (Source: Transparency International India—Corruption Perception Index—2011)

4. Real Estate & Gold

These are high value transactions and believed to be a major cause of Black Money. In India, a real estate transaction is hit by a stamp duty from the State government and a Capital Gains tax from Centre. Though these transactions are now guarded by guide-line values fixed by the government itself and States thereby ensure due share of their taxes to their kitty, the property is still registered at a far lower value. The difference (between market value and documented price) in the value is paid through black money for fear of explaining the sources of funds.

Properties (consisting of Land and buildings) offer convenient mode of hoarding the Black Money and also a mode for turning black money into white by selling them at current market prices (guideline prices) when-ever required.

Jewellery offers another convenient mode for hiding Black Money. Billions of money is lying idle in the Bank Lockers while Government has to struggle hard to tide over fiscal deficits in their annual Budgets.

More than 15,000 tonnes of gold, estimated to be worth US$600bn, is hidden away in private lockers by Indians, according to the World Gold Council. India's imports have touched 1,000 tons of Gold every year valued at US$50bn and occupies the 2nd highest value of India's imports after Crude oil (Source: Budget at a Glance—Union Budget 2012-13).

The country had imported 969 tons of gold in 2011, according to data from (WGC).

5. Fear of inflation and steady erosion in the value of Money

In a country whose economy is characterised by high inflation and spiralling prices, there will be tendency for the people to earn quick money and it means people will turn a deaf year to pay taxes and account for their income and wealth.

Impact of Black Money on the Economy

Black money is something that rich and poor alike are engaged in making. After all, money is money and that too money that comes free of tax is sweeter. Rural economy has been equally blamed for generation of Black Money. Agriculture, trading in mandis, cottage industries goes unaccounted in the rural economy and the rural GDP is not subjected to any tax.

A country ruled by massive Black Money is starved of their resources for income. Governments in those countries tend to have high rate of taxes in their attempt to bridge the gap between their outflows and inflows. Outflows are vital for a country and consist of defence & internal security, developmental and social welfare programs, infrastructure, interest payments on loans, subsidies and establishment expenses. Again, high rate of taxes leads to tax evasion which, in turn, feeds inflation and the vicious circle continues.

Fiscal Deficit (budget deficit before borrowings) in India has been a major problem over the years. The fiscal deficit estimated for year 2012-13 is 513,000 crore (Us$ 100 billion) which is 5.10% of GDP. Fiscal Deficit is financed by borrowings from the public. The irony is that the borrowings of the government are at the same level as interest paid on borrowings every year. Thus failure of the government to control Black Money increases borrowings year after year and, by its side the interest payments as well. The status as on date is that the borrowings do not go to make capital formation but go only to service the loans already taken.

Black Money upsets the moral fabric of society and these Black Cats influence the lawmakers or become lawmakers themselves to the disadvantage of weaker section of the society.

Presence of Black Money at substantial levels prevents estimation of real GDP and other economic parameters of a country.

Policy initiatives of the Government

The Government of India has formulated five ways to tackle black money both in India and that hidden in the foreign nations :

- ***Joining Global Crusade Against Black Money :*** It means collaboration with various forums at the international level to share information and cooperate in the control of illicit transfer of funds. These forums include Task force on FI&ED (Financial Integrity and Economic Development), FATF (Financial Action Task Force), APG(Asian Pacific Group),EAG(Eurasian Group), EGMONT Group, G20 etc.

- ***Creating an Appropriate Legislative Framework:*** It has also decided to adopt Double Taxation Avoidance Agreement (DTAA) and exchange of taxation information system agreement with the mutual agreement of other countries to get the information from the other banks. It has already been agreed by 40 countries.

The General Anti Avoidance Rule (GAAR) has been incorporated to deal with aggressive tax planning devices used to circumvent tax laws.

- ***Setting up Institutions for Dealing with Illicit Funds :*** (i) Setting up Exchange of Information Cell (EOI) to curb tax evasion, (ii) Directorate of Income Tax (Criminal Investigation) to deal with criminal matters relating to Punishable Crimes under IT Act.

- ***Developing Systems for Implementation :*** Doubling strength of foreign tax division, Enforcement Directorate etc.

- ***Imparting Skills to Man Power for Effective Action :*** Skill development on International taxation and Transfer pricing (Source : White Paper on Black Money, May 2012—Ministry of Finance, Government of India).

The Government of India has set up with immediate effect Directorate of Intelligence & Criminal Investigation (DCI) under CBDT, an agency which will investigate potential criminal violations of the Income Tax Act, 1961 and related financial implication punishable as an offence under any direct tax law including, inter alia — (i) Chapter XXII of the Income Tax Act, 1961, and (ii) Chapter VIII of the Wealth Tax Act, 1957.

Understanding Black Money and tax laws

There is anguish against Black Money in the whole country and it is welcome. Though tax laws provide for strong measures against tax evaders including high penalty, attachment of assets and also rigorous imprisonment etc., these are seldom implemented in an equitable manner. People who are in charge of fiscal administration have to think through this problem and effectively change the methods and procedures including the tax laws to prevent an illegitimate economy competing against the official economy.

The tax laws, particularly the Direct Tax laws in the country, have miserably failed over the years to check mushrooming growth of black economy due to their complexity, ambiguity, arbitrary methods of taxation. The tax system in the country failed to be friendly, turned hostile and lost their purpose midway, alienating tax payers from their fold. The more tax laws become rigorous, the more people will get alienated from the system. The tax system is so unnatural that it fails to strike a chord with the behavioural psychology of human being with reference to sharing Income Particulars etc. It is against will of human to pay taxes voluntarily. Personal Income is attached to privacy of man. ''Many negative reactions to taxes are the result not of economic or political defects in the tax laws, but of a combination of individual perceptual and cognitive distortions and a ''dysfunctional'' system of tax collection''—Virginia Tax Review, Vol. 16, No. 2, 1996.

While people are conscious of their responsibility to contribute to the cause of the society they are in, they would like that the same is done in an involuntary fashion but still transparent, certain, regular, acceptable and effective manner. Obviously, they are very upset with today's tax assessment and administrative procedures. A person is taxed on a fictitious income under the current system, to say that the tax authorities make additions at their will and deletions at their fancy.

The present system has failed against all canons of taxation (developed by Adam Smith) viz. :

(i) Ability of tax payer (Is the income determined real and the rate of tax is what tax payer can bear,

(ii) Certainty (Is the tax payer certain about the quantum of tax he has to pay at the time of filing his returns),

(iii) Convenience (Does the tax payer feels convenient with the methods of tax collection) and

(iv) Economy (Is tax administration efficient and effective in terms of costs. What about the cost of litigation to the tax payer and the consequential delay in Courts).

The present type of taxation allows people to commit mistakes either by tempting them or by not guiding them properly and thereafter chase them like culprits. Tax administration misguides the taxpayers in many instances and ill-treats them without realising the fact that they are the people who keep the economy running and generate income and employment.

Need for a change in Fiscal Laws

Taxing by Income accrual have not brought both taxmen and the assessed in tandem and the income subjected to tax have always been disputed and fought at courts vehemently against each other.

It is the responsibility of the tax department to provide simple and logical systems of tax collection and the system has to work in rhythm, giving full freedom for the tax payer to work in his domain. This was accepted as key objective when EA 2000 was adopted by the government. The law will change when we realise that the onus to make tax payer pay taxes and accounts for income, is more on lawmaker than on tax payer. Tax collection methods have to be simple and effective in such a manner that the tax payer has to acknowledge it as a value added process in his overall mission, making it very difficult to those who would like to skip such a process.

The current form of taxation has most probably out lived its existence and the Information Age calls for alternative method of taxation that can eradicate Black income and Black marketing at one go and citizens live in peace without nightmare on taxes while contributing liberally to the society based on their transparent economic activity.

Paper currency which replaced barter system effectively till some (long!!) time back is now obsolete and is due to be replaced by Plastic Money. Times have changed. May be this is the time for Black Money and counterfeit money (Byproducts of Paper Currency) breath their last forever. Banking system in the country is likely to play the master role in the entire change.

A reverse thinking is required in taxation of Individuals and Corporate. Monitoring and controlling Black Money is much easier than it was ever before as Computer networking and telecom connectivity will soon make Black Money generation a thing of the past. A systemic change and a change in the mindset of taxing authority to take taxpayers under their wings (if not over their heads) is the need of the hour.

Cash flow (outflow) taxation (Variant of cash flow tax)

Some time back, IT department insisted that Bank Statements should be attached to the Tax return. Thus cash flows are the real measure of income. But we will emphasize on Cash outflows rather than inflows to be subjected to tax and loop holes in all forms of cash flows outside the Banking System will be plugged for both individual and Corporate through use of technology.

The new system welcomes income generation up to one's maximum individual ability and cash inflows into his account will never be questioned and will not be the subject matter of tax.

Cash flow tax generally means a tax on cash flow net of sales less purchases of goods and services. It means immediate expensing of capital outlays while Interest income is not taxable and interest expense are not deductible. (R based Cash flow tax) source :

(Source : Parthasarathi Shome and Christian Schutte—Cash-Flow Tax, IMF Staff Papers, 1993).

Expenditure tax as a form of Cash flow tax is a tax on consumption of goods and services and unspent part of Income (savings) is not taxed. Expenditure Tax Act, 1987, provides for tax deduction on payment by an individual to a hotel towards accommodation or other services. It is a form of cash flow tax. Many countries have a mix of Income tax and consumption tax to tax both savings and Consumption with different rates of tax.

(Source : Wikipedia — Consumption tax)

Proposal for a FAIR TAX Act in US is based on Cash outflows and is making sensation in US. Tax rate will be 23% of value of goods and services. Fair tax will replace income tax and all federal taxes (Source: www.fairtax.org).

Variant Cash flow taxation, for our purpose, will mean a tax levied on every cash outflow (either as a transfer or purchase) from a Banking System. A specified % of tax will be deducted and remitted to the government treasury instantly.

No questions will be asked on the inflow into someone's a/c and it will be de-facto legitimate. Law will take its own course in case of illegitimate or illegal inflows into someone's account as and when it is detected.

VK Sharma in his Paper on ''All Economic ills—One Pill'' strongly advocates Cash outflow flow taxation which he refers to as TOP TAX and elaborately discusses the methodology of his form of taxation. The main feature of this new system is briefed as below. For detailed study of this System, reference may be made to www.vijayakrushnaSharma.com

Transfer of Purchase Tax System

- The system intends to replace present Direct and Indirect tax with the TOP TAX (Transfer or Purchase Tax) system. Tax revenue between States and Centre will be shared as per certain ratios. Ideally, Transfer of cash can be for any purpose and purchase of any item. Rate of tax shall be a specified percentage (say 4%).
- It depends heavily on banking and financial infrastructure. This is greatly possible to achieve given that we have the people and the demonstrated e-technology. Mobile phones (which can now be used to transfer money into another's account) already have deep penetration in the rural and urban areas.

• It intends to demonetise paper currency above certain denominations say Rs.100/500 & above so that people who earn income are compelled to credit the same to their respective account.

• It mandates opening of Main savings account with integrated Sub-savings for operation from various locations or for different purposes.

• The system is self Priming in Character as and when Cash flow from an account happens, tax at specified percentage will be deducted by (third party) Banking agency and paid into government's account instantly through an automation process. It requires virtually no or less outside tax collection machinery.

• The tax payments are involuntary as against current system which compels payments as determined by the tax agency. Tax is deducted and paid by a Banking agency and, as such, is transparent and total amount paid and details of such payments at any point of time can be easily downloaded from a system and checked.

• In order to prevent the money getting stagnated in an account without being transferred or spent for any purpose, a profit tax of specified higher percentage (say 30%) will be deducted on the balance (monthly average or so) and credited to government's account automatically. Incremental balance will be used for calculating profit tax in the subsequent years.

• The normal accounting and audit systems under the Companies Act will continue as they serve a different purpose to ascertain performance of business and protection of investors.

• Special Tax on purchase or sale, for specific purpose as identified the government like sales tax on liquor sales, excise duty on tobacco, Customs duty on Imports will continue.

• The system suggests for withdrawal of money from the account without payment of taxes up to a basic amount every month so that an account holder not having minimum amount to carry on his livelihood is not taxed.

• Zero cost of tax collection with 100% of tax compliance. Simple and minimum audit of tax recovery system as against the current system of running a separate tax department for administering the tax collection in addition to insurmountable obligations on the shoulders of tax payer (like filing tax returns before a specified date and getting accounts audited, answering queries from tax departments., running between tax office and courts in case of disputes etc.

• The system also suggests capturing data on inventory of certain assets of individuals/Corporate (like immovable property, valuable jewellery etc.) so that movements in these assets can be subjected to tax appropriately and also that properties no longer be used to hide Black money.

• The system will make smuggling or other illegal activities impossible as no paper currency of higher denominations will be available to settle these transactions. Even assuming they are credited into someone's account, the same will be revealed during any course of investigation to the disadvantage of person concerned.

In all probability the system is likely to adhere to basic canons of taxation as developed by Adam Smith :

1. Cash outflow is the right measure of one's ability to pay. If there are more cash outflows (even out of borrowings), it is an indication of one's ability to pay and, hence, more is the tax paid

2. The tax payment is INVOLUNTARY and coincides with every outflow as it is effected. A cash outflow is an indication of preparedness and convenience of the tax payer and he does not mind paying tax alongside every cash transfer so long as the rate of tax is reasonable.

3. The tax payer is certain of the tax to be paid with every cash outflow.

4. Economy in tax collection through efficient administration: Cash flow taxation will remove separate tax administration agency as at present and bring enormous simplicity in tax administration. The cost of tax collection and administration is almost nil or insignificant.

Hypothetical Illustrations

Let us try to match tax paid under the existing system and Casflow tax rate as below :

*Tax paid under the existing System :

1. A person who is into manufacturing makes a turnover (TO) of 1 crore.

By way of Excise Duty & State VAT @25% on Value added 40% of TO—Rs.10 lacs.

By way of Income Tax at 15% of TO @ 19% (at the current slab)—Rs. 3 lacs

Total (say) Rs. 13 lacs

2. A Person who is having a service Income of Rs. 1.00 crore

By way of Service tax @12% on Value added 50% of TO-Rs. 6.00 lacs.

By way of Income tax on 25 % of TO @ 23% (at the current slab) Rs. 6.00 lacs.

Total (say) Rs. 12 lacs

Thus the Cash flow tax rate can be adjusted between

10-13%. But in actual practice, the tax rate should be much lesser considering :

- Tax rate is flat on the cash outflows and do not consider any profit or loss from a transaction.
- There is no cost of tax collection.
- As Black Money will be eliminated, the cash flows from the system can be substantial—resulting in more tax inflows.

As per reports the current tax to GDP ratio is 15 %. (Central taxes 7% and state taxes 8%). (Source: Indian Public Finance Statistics—2010-2011 : Department of Economic Affairs : Tax-GDP Ratios : 1950-51 To 2010-2011).

It means the cash flow tax can move up to 15% without any resistance.

Variant Cash flow tax system can surely be modified to achieve best results by keeping the tax rates lower for normal cash outflows.

The current size of Central Budget excluding interest paid on loans is estimated at US$200 billion. This is likely to be achieved with a tax rate of 10% with current GDP of US$ 1.80 trillion. The rate of cash flow tax will come down as the GDP grows. The rate can be kept stable to augment further revenues as the GDP grows.

Conclusion

It is time to take serious cognizance of the deleterious effects of Black Money. If the country can plug the loopholes in Revenue Collection with minimal byproduct of Black income, It can be a game changer for India. Tax evasion has been major cause of Black Economy. Since Black Money is associated with behavioural aspects of man, no amount of stringent laws can sort out this problem. Low rate of taxation coupled with system approach can be an answer to this problem. Hence Cash (out) flow taxation together with elimination of paper currency (of higher denomination) offer lot of hope in eradicating Black money and Black Marketing at one go. ❒

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e.g. —Raw Material consumption

— Ring frame-Spindle &count-wise kgs
— Packed production
— Loom shifts worked & production.

(e) What is the percentage of invisible loss and chindi?

(f) To study the effect/ benefit of fresh investment (capital expenditure) made during the year.

(g) To find out the justification for sale/disposal of capital assets during the year.

(h) To study records of machine efficiencies for spindles, looms etc.

QC/I.E./R & D/Testing

(a) Whether life of important store items is being worked out by the company?

(b) Whether Dead Loss % of sizing materials ascertained?

(c) Whether Maintenance Audit is carried out by having Maintenance Audit programme for machines?

(d) Whether regular study for Rationalisation of labour is carried out?

(e) To study the arrears covered by these departments & cost-benefit analysis of Department.

(f) To study the monthly reports of QC/IE/RD/Testing.

Reconciliation of Cost & Financial Accounts

(a) What is the nature and type of 'other activities' carried out by the company?

(b) What is the basis of apportionment of common expenses to 'Textiles' and 'Other Activities' of the company?

(c) What is the treatment given for the difference in various figures as per cost accounts and financial accounts (expenses and income items)? Whether differences are significant and what are the reasons for such differences?

(d) Whether abnormal and non-recurring items of cost are omitted from cost records and shown in Profit Reconciliation Statement? ❒

Growth Volatility and Service-led Growth in India— An Empirical Analysis

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Introduction

Fluctuations in economic activities have increased with the spread of the globalization. Higher amount of capital flows between industrial and developing countries due to financial globalization since 1980s has increased growth rates in some developing countries but it has caused periodic collapse in growth rates and significant financial crises during the same period in a number of countries (Prasad 2003). Ensuring macro-economic stability has become the most prominent policy issue among the central bankers, multilateral agencies such as IMF, WTO etc. and the governments.

Growth is the most important variable among all macro variables. Stability in the growth is concerned as the primary condition of macroeconomic stability at least in the short run. Again a considerable amount of macroeconomic stability is desirable for long term growth in an economy. So growth and macroeconomic stability reinforce each other. Stability and sustainability of the economic growth ensures fiscal balances, trade balance, stability in the price front, equilibrium in the savings investment and finally successful implementation of the planning horizon. Economic liberalization especially trade liberalization has improved the production specialization within the manufacturing sector on the basis of specific sources of comparative advantage. Larger amount of foreign direct investment (FDI) both in manufacturing and service sector has multiplied the global output.

But this growth-led globalization does not remain always predictable. It has affected different countries in different degree in terms of growth. Even sectoral and special divergence in growth had become more prominent within an economy due to the spread of the economic liberalization. There is a paradigm shift in the mainstream macroeconomic analysis from 1980 onwards with regard to the growth and stability analysis. Corrective and vibrant monetarist approach aiming at macroeconomic stabilization replaces the Keynesian counter-cyclical demand management approach for full employment and economic growth. Short-term stabilization is considered as the key to the long-term growth.

Indian economy has suffered very slow but steady 'Hindu rate of growth', of about 3.5 per cent per annum during first three decades of independence. Virmani (2004) has described the period as ''Indian-socialist'' or perhaps ''Hindu-socialist'' period. The term ''Hindu'' does not have any religious connection. Ahluwalia (1988) has stated that the 3.5 per cent annual average growth rate during that period was much lower than the average of about 6.0 per cent achieved by developing countries as a whole. But Nayyar (2006) has argued that the economic growth in India was respectable as well as comparable with other nations during the period 1950-1980 and it was a radical departure from the colonial past. Annual average growth rate of Indian GDP achieved the 5.6 per cent level during 1980s. The unnoticed and less-addressed reform of 1980s has set the pace of the growth of the Indian economy because of the sea-change in the industrial policy and trade liberalization. The growth momentum has picked up during the second half of the 1980s. GDP grew at an annual average rate of 7.6 per cent from 1988-1989 to 1990-91. External sector has achieved and maintained double digit growth during 1985-90 due to export boom. The growth of 1980s was mainly due to higher amount of government expenditure and external borrowing. External-debt-to-GDP ratio and fiscal deficit has increased to an alarming level by the end of 1980s. So the highly volatile growth of the 1980s ultimately led to the most vulnerable situation of the Indian economy during 1990-91. Severe Balance of Payment (BOP) crisis of 1991 has compelled the policy makers to think completely out of the box and go for a more broad-based and aggressive new economic reform than 1980s. The new economic reform designed and implemented according to the Washington Consensus ultimately made our economy to come out of the deep rooted BOP crisis.

The present paper is divided into the following sections. Section II describes the growth volatility across the globe, Section III deals with growth volatility in India, economic sustainability of the service-led growth is analyzed in Section IV and Section V concludes the chapter.

Section – II

Fluctuation in the growth rate across the World

Developed countries had already achieved a steady and high rate of growth. But this is not uniformly true for the developing countries particularly in Asia and Africa. According to the World Bank data, the proportion of the East Asian population living on less than a dollar a day at purchasing power parity fell from 56 percent in 1981 to 16 percent in 2001 because of significant amount of improvement in economic growth. This is the biggest and fastest reduction in extreme poverty in world history. But Dasgupta and Singh (2005) have identified following critical outcomes of growth during the era of globalization: (a) faster growth of services than that of manufacturing industry in a number of developing countries and so the emergence of ''de-industrialization'' at low level of per capita income, (b) highly capitalized and knowledge-intensive service oriented growth in those nations resulted into jobless growth in the formal sector and (c) finally the large expansion of the informal sector due to the shrinkage of the formal sector.

The relatively rapid growth of Asian developing countries has almost certainly reduced global inequality among households for the first time since the 1820s (Martin, 2005). Most of the developing countries had enjoyed stable macro environment and moderate growth path in the 1960s (refer to Table1). Volatility increases during the 1970s and 1980s due to several types of macroeconomic crisis such as currency crisis, balance of payment crisis, sovereign debt crisis etc. Some important abnormal global macroeconomic situations during the last century are Wall Street crash of 1929, followed by the Great Depression, 1973 Oil crisis, Latin American debt crisis in 1980s beginning in Mexico in 1982, Black Monday of 1987, Scandinavian banking crisis in early 1990s, Asian Financial crisis during 1997-98, global financial crisis and most recently held European sovereign debt crisis. Joseph Stiglitz, an ardent opponent of the globalization process, suggested that in the case of developing countries there is widespread evidence that volatility has increased without necessarily leading to faster economic growth.

The growth volatility had reduced significantly during the later half of the nineties in the Latin American and the sub-Saharan African countries but it remained higher than the sixties and seventies. But both the regions suffered lower growth rate during the period. Developing and emerging nations have enjoyed stable and steady growth rate due to massive increase in the volume of global trade and much wider acceptance of the global-village concept during the last decade. East Asian tigers have achieved a higher growth rate but with moderately higher amount of volatility.

Section – III

Growth Divergence in India

India's present rapid economic progress has been contaminated with growing level of inequalities. The participation of the poor in this exaggerated process has been questioned from several angles (Deaton and Dreze 2002; Sen and Himanshu 2004). Nevertheless Indian economy had succeeded to break the so-called 'Hindu-rate' of growth and moving towards the East Asian nations and even in some cases challenging the G-8 nations. Now India is a leading member among the emerging economies. The most honorable interpretation for this growth experience is the pro-market interpretation of the economic liberalization of nineties (Srinivasan and Tendulkar, 2003). The liberalization process uncaged the so-called animal instinct of the Indian entrepreneurs resulting into manifold increase of the efficiency in the capital utilization which is essential for higher rate of economic growth (India Survey, May4, 1991). It was rightly observed by Desai (1999) that India must liberalize not because it has no choice but because it is the best choice. But some economic-historians don't agree with the above view. It is being pointed out that the average annual growth rate of gross domestic product (GDP) hit the 5.6 percent mark in the 1980s, well before the launch of the July 1991 new economic reform. The decadal growth rate in the 1990s was not much higher than the previous decadal growth rate (refer to Table 3). Therefore, opening up of the economy according to the I.M.F. prescription could not be credited with the fact that it has made a significant difference to growth in India (DeLong 2001). But certainly the above view is very conservative in nature. Fragile growth of the 80's is replaced by the highly stable growth in the nineties only because of the systematic reforms in the Indian economy. Fisher's F-ratio test clearly indicates the significant amount of reduction of the volatility during 1990s compared to the earlier decade.

Agriculture

Virmani (2004) does not find any statistical break in the growth of GDP from agriculture since independence, once the variations in rainfall are accounted for. But the most volatile sector in India is perhaps the Agricultural sector. This is primarily because of the monsoon vagaries, lack of adequate public and private investment in the sector, absence of sustained government policy intervention etc. The sector has not gain due to the opening up of the economy and the stagnant situation is still continuing (Mahadevan, 2003). Volatility of the agricultural growth has reduced but the decadal growth rate has gradually reduced during the post reform period. Agricultural sector had managed to grow at moderately high growth rate with fair enough volatility during the 1950s. This was possible because of the greater emphasis on agriculture during the first two five year plans. The sector grew at annual average of 3.0 per cent during 1950s. The annual average growth rate reduced to 2.5 per cent during the next decade with greater degree of volatility compared to the previous decade. It has become clear by the mid-Sixties that there was no alternative to technological change in agriculture for achieving self-sufficiency in food grains . The technological change came into India in the form of Green Revolution. It was introduced as a package of water, fertilizer and high yielding variety of seeds. As a result of this public as well as private investment had stepped up significantly. But the technology package failed to yield any prospective result as a whole. Food grain production especially wheat and rice increased in some western pockets of India. Inter-crop imbalance and regional disparity widened due to the technology package. Agricultural growth rate was most erratic during 1970s with the least annual average growth rate of just 1.4 percent during the period. This clearly indicates the failure of the Green Revolution. However, the volatility aroused primarily because of the unfavorable agro-climatic conditions in which the new seed-fertilizer technology was administered. The new technology was water intensive. Thus, output variability will be greater for a given variability in rainfall or moisture conditions. The new technology yielded good result when it administered under assured irrigation condition like in the case of wheat in Punjab. The growth variability was significant in case of rice, oilseeds and pulses which were cultivated in the rain-fed areas and under uncertain irrigation condition. The most successful decade for the Indian agriculture was the 1980s. Annual average growth rate for the period was 4.7 per cent and volatility also halved compared to the previous decade. Inter-crop imbalance and regional disparity were reduced during the period because of the diffusion of the effect of the green revolution to the new areas and adoption of the new technology by the small farmers. This was possible because of the Government initiative of expansion of supplies of the inputs at the subsidized rate to the farmers and better management of agricultural extension services. Government hailed this phenomenal growth as the second wave of green revolution. But the performance of the agricultural sector during 1990s was not impressive at all. Volatility has reduced significantly but with low growth rate. The annual average growth rate during the decade was 3.3 per cent. The annual average growth rate is further reduced in the recent decade with increased amount of volatility.

Industry

Industrial development in India during the post independence period can be broadly classified into two phases—development during the controlled regime (1950-1980) and development during the liberalized regime (1980 onwards.). If we divide the whole sixty years period after independence into six decades then exactly three decades come under the controlled regime and the rest three decades fall under the liberalized regime. On the basis of decadal growth performance there is no significant change during the two different industrial regimes (refer to Table 3, 4). Volatility was marginally higher during the liberalized regime than the controlled regime. Industrial growth rate was moderately high during 1950s and 1960s. Annual average growth rates were 5.8 per cent and 6.2 per cent during 1950s and 1960s respectively. Volatility has increased during the 1960s compared to the previous decade. The industrial sector had performed very badly during the 1970s. Annual average growth rate was just 4.4 per cent that is 30% lower than the previous decade with increased amount of volatility. Industrial stagnation during the period compelled the policy makers to think about the licensing regime of the industrial policy. As a result of that India emerged into a decontrolled industrial regime during 1980s. But the liberalization regime had failed to deliver the desired result. A number of studies conducted during the period had confirmed that. The study by Das (2003) revealed that the total factor productivity (TFP) growth in the 1990s was lower than in the 1980s. Srivastava's (2001) study on technical efficiency for the period 1980-81 to 1996-97 also in line with the Das's study. The study reported that the technical efficiency declined during the 1990s compared to the pre-liberalization period. But annual average industrial growth rate increased to 6.4 per cent during the 1980s. Volatility of industrial growth reduced significantly during the period. Panagariya (2004) has argued that the reforms were deeper than is generally appreciated and had a distinct impact on the growth rate in the 1980s. Industrial growth rate reduced marginally to 5.7 per cent per annum in the next decade with higher amount of variability. Balakrishnan (2005) has pointed out that the 1990s has failed to achieve significantly higher amount of economic growth, especially in the industrial front, which is often considered as the failure of economic reforms in India at least in the short term. Annual average industrial growth rate is highest during the recent decade with moderately lower amount of volatility. There is no doubt that that India has attained self-sufficiency in almost all consumer goods. Growth of capital goods production has been especially impressive. The major achievement in the industrial sector since independence is the diversification of the India's industrial capability. So it is rightly emphasized that the industry, especially manufacturing, was one of the key drivers of the transformation in the growth trajectory of the Indian economy witnessed during the post-2000 period (Economic Survey, 2009-10).

Service

Service sector is the most rewarding sector during the period of structural adjustment mechanism of Indian economy since July, 1991. It emerged as the most dynamic sector in liberalized India and its growth has been less cyclical and more stable than growth in industry and agriculture (Gordon and Gupta, 2004). There is increased amount of 'tertiarisation' of Indian economy since the onset of the liberalization process. Virmani (2004) has pointed out that the acceleration in the growth of GDP from services was a gradual process from 1980-81 to 1985-86, and it became firmly established in 1985-86. Indeed service sector is the least volatile sector among the all sectors since independence. Annual average growth rate was 4.2 per cent during the 1950s. It increased to 5.2 per cent in the next decade (refer to Table2). The performance of the service sector was worst during the decade of 1970s. The annual average growth rate was just 4 per cent with increased amount of volatility during the period. After that the service sector enjoyed a consistent level of high growth with lower volatility over the decades. Structural reform of the economic system on the basis of the WTO direction paved the way of the service-led growth in India. Annual average growth rate was 6.3 per cent during the 1980s. It reached 7.1 per cent in the next decade. Service sector achieved the highest growth rate with slightly higher amount of volatility in the present decade. Annual average growth rate during the present decade is close to 9 per cent.

Decadal growth variance is estimated by the Fisher's F- ratio test (refer to Table 2).

Fluctuation in State Domestic Products (SDPs)

Another interesting feature of the liberalization process is the fluctuation in the State Domestic Products (refer to the Table 4 & Table 5). Kohli (2006) found that the rates of economic growth across Indian states started diverging more in the 1990s than in the 1980s. Some of the states have benefited in terms of growth and seen a positive structural shift while many of the states have experienced negative shifts in their growth path (Bhanumurthy and Singh, 2009). Prior to the liberalization process the top five performing states were Rajasthan, Haryana, Tamil Nadu, Karnataka and Himachal Pradesh but after the liberalization it was replaced by Gujarat, West Bengal, Haryana, Himachal Pradesh and Karnataka. The most severely affected states are the Tamil Nadu and Rajasthan and Gujarat participated or rather enjoyed the most worthy consequences of the globalization. Among the others reasons, one of the important reason for this unequal distribution is the difference in the political economy of the individual states towards the liberalization.

Section IV
Economic sustainability of service-led growth

We have seen that globalization has ensured substantially higher and stable growth of Indian economy during the recent decade due to the ''servicitisation'' of the economy. India's services GDP growth has been continuously above overall GDP growth, pulling up the latter since 1997-98. It has also been more stable (Economic Survey, 2010-11). Now we concentrate on the most debatable issue of the economic sustainability and viability of the service-led growth momentum without developing the dynamic manufacturing industry and improvement on the traditional sector after the liberalization process. In conventional economic literature it is argued that the macro-level economic growth performance is expected to grow over time with significant amount of structural transformation accompanied with manifolds diversification in the sectoral composition of the output and employment (Kuznets 1974). Therefore on the basis of this conventional viewpoint, a narrow-based growth process concentrating every view on service sector is not conducive for the economic sustainability as well as stability. The importance of the agricultural sector can't be treated with less importance even if it is true that we are climbing of the development ladder because its complementary relationship with the industrial sector (Lewis 1954, 1958; Harris and Todaro 1970; Kaldor 1979).

How far this stable service-led economic growth is economically sustainable in the long-run can be judged on the basis of the following three criteria :

(a) Employment generation capacity,
(b) Income generation potential and finally
(c) Export earning capability.

Service-sector comprises of mainly three types of activities - some are related to the production, some are solely for the consumption and the remaining are mixed in nature. So a closure look of the comprising sub-sectors of the service-sector is required to find out the linkage-effect of the different sectors. If the important sectors with the large share to the service-sector have greater linkage with the production process, then the service-led growth process will have sustainable impact in the long run due to its employment generating capacity.

The present service-led growth in India is unbalanced in nature with respect to employment generation as it fails to generate employment in proportion to its contribution to overall GDP. Agricultural sector is still the highest employer but it contributes the least proportion to the GDP. It contributes less than 20 per cent of the GDP but it still absorbs more than 50 per cent of the total labor force. Whereas tertiary sector accounts for close to 60 per cent of the GDP but it provides employment only 30 per cent of the total employment at present. The secondary sector remains more or less stagnant in this respect even after the economic reform. So it is clearly established that the service-led growth has failed to maintain the proportional balance between sectoral contribution to GDP and employment (Table 6 - 10). Despite this disproportionate growth, it is important from the policy perspective that service sector has generated highest amount of additional employment during the post-reform period whereas primary sector has failed remarkably to generate additional amount of employment during the same period (Table10, Datta 2002). But it is clearly evident from the sectoral employment elasticities on Current Daily Status (CDS) basis (Table 11) that service-led growth has given birth to the job-less growth. Overall sectoral employment elasticity has come down from 0.62 during the pre-reform period to 0.16 during the post-reform period.

In India, service sector accounts for more than 50 per cent of the GDP and it contributes more than 30 per cent of the total exports. The service-led export is gaining its importance since the new economic reform. It grew by 8 per cent during the decade of the 1990s and it doubled in the next decade. It further improved in the subsequent decade. Highly knowledge and skill intensive service industries like software, business process outsourcing (BPO), financial services etc. have gained more than the labour intensive service industries like travel and tourism, transportation etc. The share of software services has reached more than 50 per cent of the total service export during the recent decade.

Section–V
Conclusion

Macroeconomic stability basically means a desirable combination of external and internal balance. To achieve the desirable combination, stable growth is the primary requirement. Several studies conducted during the last two decades has found that trade and financial liberalization had made the growth unstable because of higher level of exposal to pro-cyclical financial swings in the developing nations. But India has maintained a robust macro-management framework by the successful implementation of a regulated liberal doctrine following a passage of structural adjustment programs. As a result of this, India has achieved a stable higher growth rate after the economic reform. So India has reached a higher stable growth trajectory in this era of globalization. Fisher's F- ratio test supports that systematic and consistent economic reform in India has reduced the growth volatility. But sectoral and spatial divergence in growth has become more prominent after the reform. Agricultural sector is the most volatile sector in India. The performance of the agricultural sector has not improved during the liberalization period. Industrial growth remains more or less stagnant even after the inception of the industrial liberalization regime. Service sector has enjoyed stable and higher than overall economic growth rate after the economic reform. But this service-led growth is very unbalanced in nature because of lower degree of employment generation capacity. So it can be concluded that India has achieved a stable higher job-less growth in the era of globalization. ❐

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Table 1 Output Volatility across the Globe, 1960-2003

Region	Coefficient of variation of growth rate			
	1960s	1970s	1980s	1990-2003
Developed Countries	0.12	0.51	0.51	0.35
Developing Countries				
East Asia and the Pacific	2.03	0.41	0.20	0.32
South Asia	0.62	1.16	0.24	0.28
Middle East and Northern Africa	–	0.89	1.22	0.56
Europe and Central Asia	–	–	–	29.65
Latin America and the Caribbean	0.37	0.25	1.53	0.84
Sub-Saharan Africa	0.46	0.81	1.00	0.68

Source : World Economic and Social Survey, 2006 and World Development Indicators Database, 2005.

Table 2 Result of Fisher's F-ratio test for growth-volatility over the decades

Decade	Sector growth rate	Average	Variance	$F = F_0/$	$P (F \le f)$	$F_{0.05}$
	All	3.4	6.4	–	–	
1950-51-1959-60	Agriculture	3.0	27.66	–	–	–
	Industry	5.8	2.08	–	–	
	Service	4.2	3.78	–	–	
	All	4.0	13.4	0.5	0.8574	
1960-61 1969-70	Agriculture	2.5	70.57	0.39	0.91	3,1789
	Industry	6.2	10.82	0.19	0.99	
	Service	5.2	1.49	0.99	0.09	
	All	2.9	17.5	0.8	0.6507	3.1789
1960-71-1969-80	Agriculture	1.4	81.13	0.87	3.83	
	Industry	4.4	13.45	0.80	0.39	
	Service	4.0	3.83	0.62	0.91	
1980-81 1989-90	All	5.6	5.2	3.4***	0.0417	3,1789
	Agriculture	4.7	46.54	1.74	0.21	
	Industry	6.4	6.93	1.94	0.17	
	Service	6.3	1.23	3.11***	0.05	
	All	5.7	3.0	1.7	0.2205	
1990-91-1999-00	Agriculture	3.3	19.12	2.43	0.10	3.1789
	Industry	5.7	16.80	0.41	0.90	
	Service	7.1	3.34	0.37	0.92	
	All	7.1	3.9	0.8	0.6437	
2000-01-2009-10	Agriculture	3.0	29.11	0.66	0.73	3.1789
	Industry	6.5	7.20	2.33	0.11	
	Service	9.0	3.97	0.84	0.60	

Source : Handbook of Statistics, 2008-09, RBI & author's own calculation

Note : (a) F = ratio of variances of previous decade to subsequent decade;

F > 1, indicates the reduction of volatility over the decade;

=1, volatility remains same over the decade and

< 1, indicates the increase of volatility over the decade.

(b) $F_{0.05}$ = the critical value taken from the 0.05 F distribution.

(c) *** denotes significant at 5% level of significance.

Table 3 Result of Sectoral growth volatility over the decades using Fisher's Ratio Test

Decade	Sectors©	Average	Variance	$F = F_0/F_1$	$P(F \le f)$	$F_{0.05}$
	S_1	2.8	19.4	–	–	
1951-52-1959-60	S_2	5.8	17.3	–	–	
	S_3	5.0	3.5	–	–	3.18
	S_4	3.1	1.2	–	–	
	S_5	3.5	0.6	–	–	
	S_1	2.6	46.5	0.42	0.90	
1960-61-1969-70	S_2	6.5	7.8	2.22	0.13	
	S_3	5.4	4.0	0.87	0.58	3.18
	S_4	3.2	1.0	1.17	0.41	
	S_5	5.2	1.3	0.44	0.88	

(contd.)

(contd.)

Decade	Sectors©	Average	Variance	$F = F_0/F_1$	$P(F \leq f)$	$F_{0.05}$
1970-71-1979-80	S_1	1.3	60.2	0.77	0.65	3.18
	S_2	3.7	15.5	0.50	0.84	
	S_3	4.8	8.0	0.50	0.84	
	S_4	4.3	7.2	0.14	1.00	
	S_5	4.1	2.2	0.61	0.77	
1980-81-1989-90	S_1	4.7	35.8	1.68	0.22	3.18
	S_2	5.7	6.6	2.33	0.11	
	S_3	6.0	1.0	8.16	0.00***	
	S_4	8.7	7.9	0.91	0.56	
	S_5	5.9	3.9	0.56	0.80	
1990-91-1999-00	S_1	3.4	12.6	2.83	0.07	3.18
	S_2	5.7	11.9	0.56	0.80	
	S_3	7.5	8.1	0.12	1.00	
	S_4	8.1	7.0	1.12	0.43	
	S_5	6.4	9.2	0.42	0.89	
2000-01-2008-09	S_1	2.8	18.7	0.67	0.71	3.44
	S_2	8.0	10.9	1.09	0.45	
	S_3	10.1	3.3	2.46	0.11	
	S_4	9.4	12.7	0.55	0.79	
	S_5	6.2	10.9	0.85	0.59	

Source : Economic Survey, 2009-10 & author's own calculation.

Note : (a) F = ratio of variances of previous decade to subsequent decade;
F > 1, indicates the reduction of volatility over the decade;
=1, volatility remains same over the decade and
< 1, indicates the increase of volatility over the decade.

(b) $F_{0.05}$ = the critical value taken from the 0.05 F distribution.

(c) *** denotes significant at 5% level of significance.

(d) © S_1 : Agriculture, forestry & fishing, mining and quarrying;

S_2 : Manufacturing, construction, electricity, gas and water supply;

S_3 : Trade, hotels, transport & communication;

S_4 : Financing, insurance, real estate and business services;

S_5 : Public administration & defence and other services;

Table 4 Growth rate of State Domestic Product

States	1980-90	1990-2004	1980-2004
Andhra Pradesh	4.81	5.33	5.1
Assam	3.91	3.00	3.4
Bihar	5.20	4.2	4.6
Gujarat	5.71	8.11	7.1
Haryana	6.68	6.63	6.65
Himachal Pradesh	6.10	6.44	6.3
Karnataka	6.10	6.38	6.3
Kerala	4.50	5.69	5.2
Madhya Pradesh	5.18	4.74	4.9
Maharashtra	5.98	5.92	5.95
Orissa	5.85	3.94	4.7
Punjab	5.14	4.14	4.6
Rajasthan	7.17	5.68	6.3
Tamil Nadu	6.35	5.70	5.97
Uttar Pradesh	5.88	3.76	4.64
West- Bengal	5.20	7.12	6.32
Mean	5.61	5.42	5.50
Standard Deviation	0.83	1.38	0.99
Coefficient of Variation	14.83	25.38	18.13

Source: Reproduced from Kohli (2006) and author's own calculation.
Note: The figures for Bihar, Madhya Pradesh and Uttar Pradesh are not strictly comparable across years because, following 1994-1995, they do not include the regions that have come to constitute the states of Jharkhand, Chhattisgarh and Uttaranchal respectively.

Table 5 Comparison of State Domestic Product

States (Ascending order of growth rate)	1980-1990	States (Ascending order of grwoth rate)	1990-2004	Sates (Ascending order of growth rate	1980-2004
Assam	3.91	Assam	3	Assam	3.4
Kerala	4.5	Uttar Pradesh	3.76	Bihar	4.6
Andhra Pradesh	4.81	Orissa	3.94	Punjab	4.6
Punjab	5.14	Punjab	4.14	Uttar Pradesh	4.64
Madhya Pradesh	5.18	Bihar	4.2	Orissa	4.7
Bihar	5.2	Madhya Pradesh	4.74	Madhya Pradesh	4.9
West- Bengal	5.2	Andhra Pradesh	5.33	Andhra Pradesh	5.1
Gujarat	5.71	Rajasthan	5.68	Kerala	5.2
Orissa	5.85	Kerala	5.69	Maharashtra	5.95
Uttar Pradesh	5.88	Tamil Nadu	5.7	Tamil Nadu	5.97

(contd.)

(contd.)

States (Ascending order of growth rate)	1980-1990	States (Ascending order of grwoth rate)	1990-2004	Sates (Ascending order of growth rate	1980-2004
Maharashtra	5.98	Maharashtra	5.92	Himachal Pradesh	6.3
Himachal Pradesh	6.1	Karnataka	6.38	Karnataka	6.3
Karnataka	6.1	Himachal Pradesh	6.44	Rajasthan	6.3
Tamil Nadu	6.35	Haryana	6.63	West- Bengal	6.32
Haryana	6.68	West- Bengal	7.12	Haryana	6.65
Rajasthan	7.17	Gujarat	8.11	Gujarat	7.1
Mean	5.61		5.42		5.50
Standard Deviation	0.83		1.38		0.99
Coefficient of Variation	14.83		25.38		18.13

Source : Same as previous table.

Table 6 Sectoral Distribution in percentage of the GDP in-pre liberalization period

Year	Primary	Secondary	Tertiary
1980-81	41.82	21.59	36.59
1981-82	41.72	21.89	36.39
1982-83	40.47	21.84	37.68
1983-84	41.02	22.04	36.94
1984-85	39.90	22.45	37.65
1985-86	38.59	22.51	38.90
1986-87	37.06	22.91	40.03
1987-88	35.33	23.60	41.06
1988-89	36.92	23.21	39.87
1989-90	35.25	24.07	40.68
Mean	38.81	22.61	38.58
Standard Deviation	2.53	0.82	1.75
Coefficient of variation	6.53	3.63	4.54

Source : Economic Survey (2004-05) & author's own calculation.

Table 7 Sectoral Distribution in percentage of the GDP in post- liberalization period (1990-91—2001-2002) :

Year	Primary	Secondary	Tertiary
1990-91	34.93	24.49	40.58
1991-92	34.09	23.93	41.98
1992-93	34.18	23.74	42.07
1993-94	33.54	23.69	42.77
1994-95	32.94	24.35	42.71
1995-96	30.59	25.47	43.94

(contd.)

(contd.)

Year	Primary	Secondary	Tertiary
1996-97	30.87	25.45	43.68
1997-98	29.02	25.19	45.78
1998-99	28.86	24.56	46.58
1999-00	27.37	24.30	48.33
2000-01	26.25	24.90	48.85
2001-02	26.28	24.41	49.30
Mean	30.74	24.54	44.72
Standard Deviation	3.18	0.61	2.97
Coefficient of variation	10.34	2.48	6.64

Source : Economic Survey (2004-05) & author's own calculation.

Table 8 Sectoral Distribution in percentage of the GDP in post- liberalization period (2002-03—2009-10) :

Year	Primary	Secondary	Tertiary
2002-03	23.73	23.52	52.75
2003-04	23.90	23.36	52.73
2004-05	21.89	25.06	53.05
2005-06	20.92	25.33	53.76
2006-07	19.96	26.04	54.00
2007-08	19.26	26.26	54.48
2008-09P	18.05	25.75	56.20
2009-10Q	16.93	25.77	57.30
Mean	20.58	25.14	54.28
Standard Deviation	2.52	1.11	1.67
Coefficient of variation	12.27	4.42	3.07

P : Provisional estimate
Q : Quick estimate
Source: Economic Survey (2010-11) & Author's own calculation.

Table 9 Growth of Employment by Sectors (Per Cent)

Industry	Employed Workers					Annual Growth Rates		
	1983	1993-94	1999-2000	2004-05	2007-08	1983-	1994-2000	2004 08
Primary	69	65.5	60.4	57.0	55.9	1.60	–0.34	–1.1
Secondary	13.8	14.8	16.8	18.2	18.7	2.90	3.14	0.5
Tertiary	17.2	19.7	22.7	24.8	25.4	3.53	2.42	0.6
Total	100.00	100.00	100.00	100.00	100.00	2.04	0.98	0.76

Note: Employment data is based on Usual Principal and Subsidiary Status (UPSS), NSS

Source: Compiled from Datt, 2002 and Economic Survey, 2010-11.

Table 10 Shares of Different Sectors in Increase of Employment

Sectors	Increase during (Million)		Share in Increase (Per cent)	
	Pre-reform (1983-93)	Post-reform 1994-2000)	Pre-reform (1983-93)	Post-reform (1994-2000)
Primary	36.17	–5.33	50.50	–23.60
Secondary	13.87	11.38	19.30	50.40
Tertiary	21.65	16.50	30.20	73.20
Total	71.69	22.55	100.00	100.00

Source : Datt 2002

Table11 Sectoral Employment Elasticities on Current Daily Status (CDS) Basis

Sector	1983-84 to 1987-88 (Pre-Reform	1993-94 to 1999-2000 (Pre-Reform)
Agriculture	0.87	0.01
Mining and quarrying	1.25	-0.41
Manufacturing	0.59	0.33
Electricity, gas and water supply	0.30	-0.52
Construction	2.81	0.82
Trade, hotel and restaurants	0.87	0.62
Transport, storage and communication	0.47	0.63
Finance, insurance, real estate and business services	0.49	0.64
Community, social and personal Services	0.52	-0.25
All	0.62	0.16

Source : Report of Special Group on Targeting Ten Million Employment Opportunities Per Year over Tenth Five Year Plan, Planning Commission, May, 2002, p 158

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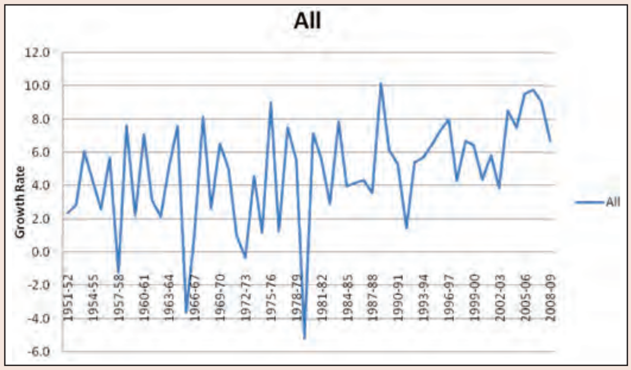

Fig : 1 Growth Rate of GDP (1951-52-2008-09)

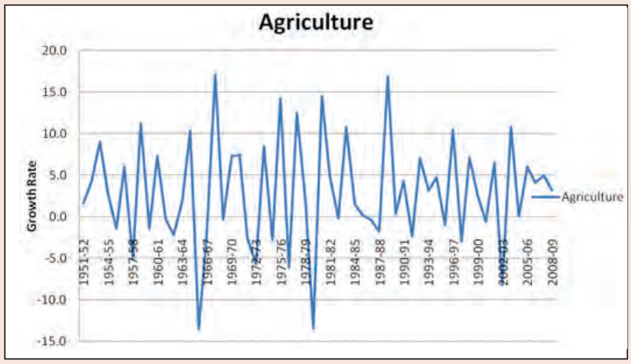

Fig : 2 Growth Rate of Agriculture (1951-52-2008-09)

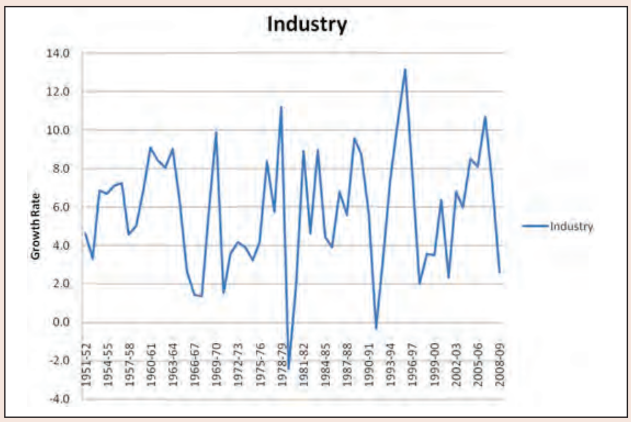

Fig : 3 Growth Rate of Industry (1951-52-2008-09)

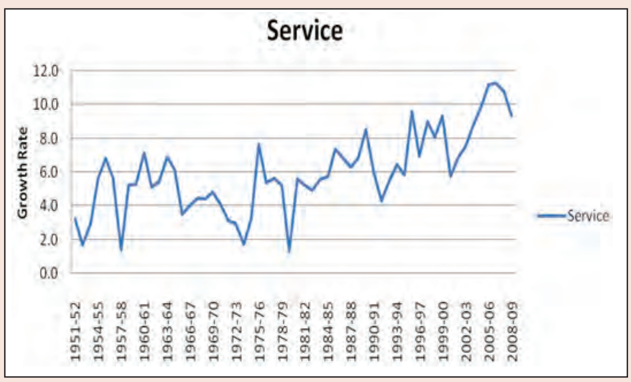

Fig : 4 Growth Rate of Service (1951-52-2008-09)

India's Socio-Economic Duality

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Introduction

India is a multi-faceted country, unique for its diversity and contrast in many areas. One of the glaring contrasts is its lurking and widespread poverty and discernible pockets of prosperity which baffles many. Such incongruity is not an isolated case, but is pervasive in social and economic spheres of the country. It is the manifestation of many internal contradictions in our polity and social life. This article attempts to decipher the underlying reasons for such conundrums, the way forward and measures needed for lessening such imbalances.

Duality in Social Spheres

Such stark contrasts are not confined to economic front alone, it is equally brazen in social spheres and is in fact interwoven to each other. Many such inconsistencies are deeply embedded in our society and need urgent attention to wither away their evil influences and ushering in ray of hopes in the life of vast underprivileged people. Some of these glaring incongruities are cited below for introspection and gauging the seriousness of the problem, which in turn could be used as a diagnostic tool for remedial recourses.

- India is five thousand years old ancient civilization and we take pride for our culture, tradition and values. We consider our nation as the repository of knowledge, wisdom and humanity. Nevertheless, the contemporary India is labeled as one of the most corrupt nations in the world by Transparency International—a global watchdog body. This signifies our societal dichotomy and the extent of our ethical and moral degeneration.

- India is the land of Lord Buddha, Sri Sankaracharaya, Aryabhat, Bhaskaracharaya, Vedas, Upanishads, Ramayana and Mahabharata; but till recently the developed nations perceived India as the land of superstitions, snake-charmers and rope-tricksters.

- The majority of Indians worship women in the form of mother Goddess, but at the same time female foeticide, dowry menace, bride burning etc are rampant in society. Such incongruities covering both the educated and illiterate mass are prevalent in our society.

- India is the world's largest democracy, yet wretched and underprivileged people are often marginalized by the wealthy and powerful. The voices of the poor are not discernible most of the time, the rich and influential people rule the roost more often than not.

- Such contrast is pervasive in all walks of life in India. To illustrate it further, the world's first known university was established in Takshila in 700 BC where sixty subjects were taught in those days. Later on, Nalanda University (4th century) stood out in the field of all-round education and students from faraway countries flocked there for acquiring knowledge. But the travesty is—the contemporary India has the largest number of illiterate people in the planet.

- Ayurveda was developed in India and was compiled by Charak 2500 years ago; nonetheless India has one of the highest infant mortality in the globe and having scanty primary health centers in its vast rural areas.

Dichotomy in Economic Front

- India has always lived and moved forward with inherent contradictions. India is one of the fastest growing and the fourth largest economy in the world. Nevertheless, it has one of the lowest per capita incomes in the globe and ranks poorly in terms of human development index and quality of life. The gnawing poverty is pervasive and looming large. It cast debilitating influence on society.

- India has earned the world-class recognition in the field of IT, ITeS, Biotechnology, Pharmaceuticals, Nanotechnology, Space research and nuclear capabilities. She is having the second largest band of scientists and engineers in the globe, yet she has the largest pool of unemployed youth and idle workforce in the world.

- India has launched space craft and possesses the nuclear capabilities which are privy to few select nations. Nonetheless, bullock cart is the predominant mode of transportation in rural areas. One could also find swanky Mercedes, BMW moving side by side with handcarts and tongas (horse-driven cart) in Indian cities.

- Juggi and Jhupdi could be found next to the glamorous buildings. Similarly, hutments and slums could be seen right across the plush seven star hotels. The occupants of both these world live in symbiotic peace.

Underlying Reasons

Till independence and its aftermath, India was an agrarian economy, two hundred years of British rule had ruined the economy of the country exploiting to the full. The wealth was static—in the form of land and was confined to feudal lords, powerful traders and their cronies. The growing demand for consumption propelled industrialization and wealth was created rather rapidly in the manufacturing sectors ushering in moving of the economy base from villages to cities. The deprived peasants and poor people out of desperation migrated to cities in search of livelihood. They accommodated themselves in the squalor of slums, shacks and in dump yards. They lived a miserable life not by choice, but because no alternative was available to them. In order to earn meager livelihood, these pitiable mass worked tirelessly in the factories and other places and created wealth which benefited their owners immensely. The latter's profitability and wealth swelled, where as the wretched mass remained poor for generations.

Of late, prestigious new age technology companies and major Fortune-500 organisations have opened their shops, factories, R&D hubs in India heralding economic resurgence and creating islands of prosperity. These islands in the midst of backwardness and poverty are gleaming rather starkly. Such island of prosperity portends the fact that wealth is accumulated to a small fraction of people making the development skewed. It is not distributed to a wider base or strata of society as desired. Distribution of wealth is as important a factor as creation of wealth. It's an intriguing issue and if not addressed properly, it has the potential of creating social discord. The wider the base of development, the more sustainable is the growth.

The accumulation of wealth in society is becoming highly skewed, the social divide is widening, the rich is getting richer and the poor is becoming poorer. The benefit of creation of wealth is not infiltrating to the mass generating disillusion with the system. One can see thousands of hapless workers who had lost their jobs for no fault of theirs. Tens of thousands of retrenched workers or poor peasants turning up for solidarity or airing their disenchantment can be seen every now and then at different corners of the country. Their appearance foretells India's destiny.

The Path Ahead

India has progressed a lot in the recent years. Her advancement in science and technology, economic sphere and democratic process are laudable, yet widespread poverty, suffering of the poor is a blot on her success. While we may feel ecstatic for our achievements, we have also reasons to worry for our failures in many areas. The tasks are daunting … miles to go before … bringing smile to millions of poor countrymen.

The need of the hour is to embrace a ''human approach'' for addressing widespread poverty. Colossal efforts are needed to mitigate hunger and malnutrition, to provide immunization and health care, primary education, safe drinking water, sanitation etc. to millions of underprivileged people. Enormous advances have been made in science and technology in last few decades that have lifted humanity to new heights of prosperity and longevity of people in many countries. We must harness science and technology to tackle widespread poverty and hunger. We must take advantage of the recent technological development to prevent sufferings from preventable diseases, polluted water sources; and ensure propagation of primary and adult education.

All-round development is essential to sustained economic growth and passing benefits to all sections of society. It is important that the economic benefits permeate to all especially, the weaker section of society. Mere creation of wealth without passing its benefit to the common people would make the development skewed and unsustainable. If distorted growth continues for long, it would lead to social unrest and breed malice to society.

Conclusion

A stable and healthy society propels growth and keep its citizens involved and happy. On the other hand, wide disparity among various sections of society create animosity and deter growth; besides, resources are not properly utilized. Therefore, balanced and dispersed development is necessary to eradicate widespread poverty and bring all round prosperity to the country. This article tries to capture some of the issues related to India's duality—the widespread poverty and pockets of prosperity. It also unravels its root causes and highlights remedial recourses. ❐

Sustainable Growth & Corporate Sustainability with a Special Reference to A case Study on ITC Ltd.

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Growth is another name of life. Growth gears up development. Darwin's theory substa-ntiates the survival of the fittest through adaptation. But mere survival is not sufficient. The status quo is not an option. Long-term survival is a sine qua non for ensuring perpetual subsistence quashing extinction. Human race must be unremi-ttingly and responsibly responsive to afford the future—buying insurance for the plant, planet and people.

Growth Vs. Development

Notwithstanding the fact that growth prima facie jives with development, they are not analogous. Whereas economic growth macro economically refers to enhancement in economic activities without warranting any underlying change in the fundamental economic structure and institutions of an economic system; economic development encompasses technological, institutional and social transformations and structural recasting in an economic system. Sustained economic growth, mainly leaning on accelerated pace of industrialisation, urbanisation, mass production, cut-throat competition and voracious consumerism, is the breeding ground of the global torment causing environmental degradation and pollution which threatens the living conditions of generations to come. Development is a process by which the members of a society increase their personal and institutional capacities to mobilize and manage resources to produce sustainable and justly distributed improvements in quality of life consistent with their own aspirations (Korten D, 'Getting to the 21st Century'). Thus, economic development envisages a wider vision than economic growth.

Concept of Sustainable Development

In microeconomic sense, organisational sustai-nability interfaces with economics through the social and ecological consequences of economic activities undertaken by a firm in pursuit of fulfilling its avowed goal, mainly concentrating on maximisation of shareholders' wealth. Sustainable means endurable. Etymologically, the word 'sustainability' is derived from the Latin word 'sustiere' which refers to 'shore up' ,or 'hold'. The idea of sustainable development has evolved over the last four decades with a proliferation of its interpretation in terms of vision, values and principles. The focus of sustainability ranges from the total carrying capacity(sustainability) of planet Earth to the sustainability of economic sectors, ecosystems, countries municipalities, individual lives, individual goods and services, and so on. Since 1980s sustainability has been used more in the sense of human sustainability on planet Earth and this has resulted in the most popularity of sustainable development. Originally proposed in the World Conservation Strategy in 1980, the term gained widespread currency resulting from the most widely accepted definition of sustainable development propounded on March 20, 1987 by the World Commission on Environment and Development (WCED), better known as Brundtland Commission of the United Nation in their report, Our Common Future: 'development that meets the needs of the present without compromising the ability of future generations to meet their own needs'. The Rio conference in 1992, spotlighting the three pillars of sustainability based on the integration of economic, social and environmental considerations further broadened the concept enunciated by WCED and paved the way of institutional and corporate path to sustainable development. Sustainability may also be defined as the process of improving the quality of human life within the carrying capacity of supporting eco-system. However, a universally accepted definition of sustainable development remains elusive because it is expected to achieve multifarious phenomena.

Corporate Sustainability

Corporate sustainability is the business approach that creates long-term shareholder value by embracing opportunities and managing risks deriving from economic, environmental, and social developments. The Journal of Environmental Strategy defines corporate sustainability as 'the capacity of an enterprise to maintain economic prosperity in the context of environmental responsibility and social stewardship'. Corporate sustainability entails the creation of sustainable competitive advantage by means of building the capacity of a firm to add value through the product it produces or services it renders and ensuring its operation ad infinitum in a socially and environmentally just and equitable modus operandi. From this perspective, a sustainable enterprise may be defined as 'one that contributes to sustainable development by delivering simultaneously economic, social and environmental benefits- the so-called triple-bottom-line' (Hart and Milstein, 1999, p6).

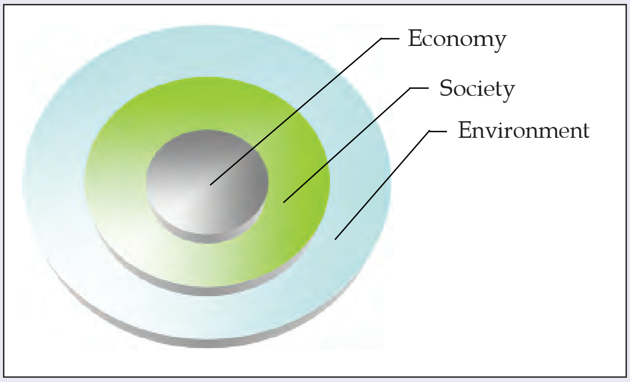

Fig. 1

Prof. John Elkington was the pioneer of the concept of 'triple-bottom-line' in 1994. He elaborated on the triple-bottom-line based sustainability further in his book titled 'Cannibals with Forks: the Triple Bottom Line of 21st Century Business' published in the late 1990s (Elkington, 1998). He deliberated the thought of corporate sustainability by referring to a situation in which firm pays due attention not only to the economic value they add , but also the environmental and social value they add or destroy, trying to harmonize their efforts as they pursue these different goals(Elkington, 1994 and 1997). In fine, corporate sustainability may be visualised as the endeavour to embrace the environmental and social dimensions into business operations: processes, products and procedures.

The two figures (Fig.1 and Fig.2) indicate the relationship among the three pillars of sustainability i.e. economic sustainability, environmental sustainability and social sustainability.

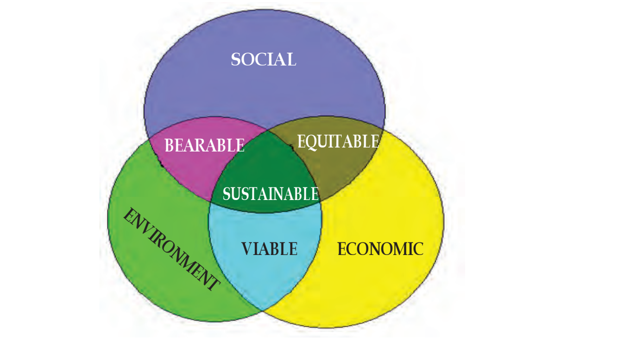

Fig. 2

Case Study

Considering the constraint of the scope of the present paper, the case study of corporate sustainability has been restricted to the Sustainability Reporting of ITC Ltd. ITC is one of India's foremost private sector companies with a market capitalisation of over US$ 6 billion and it is rated among the 'World's Best Big Companies', Asia's 'Fab 50' besides earning the honour of India's 'Most Respected Companies' by Business World and India's 'Most Valuable Company' by Business Today. ITC has a diversified presence in Cigarettes, Hotels, Paperboards & Specialty Papers, Packaging, Agro-Business, Packaged Foods & Confectionery, Information Technology, Branded Apparel, Personal Care, Stationery, Safety Matches and other FMCG products. While ITC is an outstanding market leader in its traditional businesses of Cigarettes, Hotels, Paperboards, Packaging and Agro-Exports, it is rapidly gaining market share even in its nascent businesses of Packaged Foods & Confectionery, Branded Apparel, Personal Care and Stationery. It employs over 26,000 people at more than 60 locations across India. The Company continuously endeavours to enhance its wealth generating capabilities in a globalising environment to consistently reward more than 4,04,250 shareholders, fulfil the aspirations of its stakeholders and meet societal expectations. This over-arching vision of the company is expressively captured in its corporate positioning statement: ''Enduring Value''. ITC ltd has got a GRI–G3 Compliant Application Level A+ for the ways it takes to carry on business.

The Triple Bottom Line Reporting of ITC contributing to the People(Social Sustainability), Profit (Economic Sustainability), and Planet (Environmental Sustainability)

Economic Sustainability (Profit & Economic Prosperity)	Environmental Sustainability (Planet & Environmental Quality)	Social Sustainability (People & Equity & Justice)
The paid-up share capital of the Company, as on 4th August, 2011, is Rs 775,13,33,960(Rs.775.13 corers) divided into 775,13,33,960 Ordinary Shares of the face value of Rupee 1/- each.	ITC's Watershed Development initiative brings precious water to over 69,484 hectares of dry lands and moisture-stressed areas.	ITC's businesses generate livelihoods for over 5 million people, and its globally recognized e-Chou pal initiative is the world's largest rural digital infrastructure benefiting over 4 million farmers.

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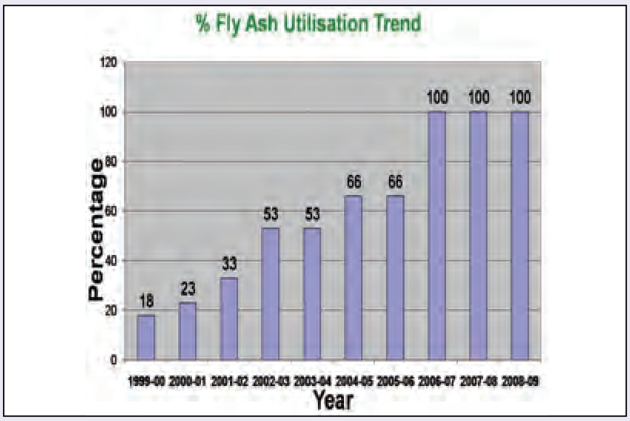
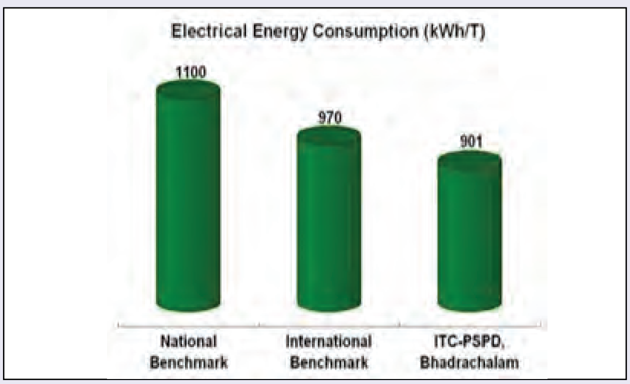
Economic Sustainability (Profit & Economic Prosperity)	Environmental Sustainability (Planet & Environmental Quality)	Social Sustainability (People & Equity & Justice)
Multiple drivers of growth encompassing FMCG, Paperboards & Packaging, Agro Business, Hotels and Information Technology.	'Carbon Positive' – five years in a row (Sequestering/storing twice the amount of CO_2 that the Company emits).	ITC's businesses generate livelihoods for over 5million people.
A turnover of US$ 6 billion and a market capitalisation of nearly US$ 30 billion	Water Positive' – for eight consecutive years(creating three times more rainwater) harvesting potential than ITC's net consumption	ITC's globally recognised e-Chou pal initiative is the world's largest rural digital infrastructure benefitting over 4 million farmers.
Total Shareholder Returns, measured in terms of increase in market capitalisation and dividends, growing at a compound rate of over 24% per annum over the last 15 years Waste Recycling Positive for the last three years	Waste Recycling Positive for the last three years	ITC's Social and Farm Forestry initiative has greened 1,07,000 hectares, creating an estimated 48 million person-days of employment.
The new FMCG businesses support the competitiveness, technology upgradation and market reach of over 150 Small & Medium Enterprises (SMEs)	Nearly 31% of total energy consumed is from Renewable sources. Wealth out of Waste (WOW) Initiative : REDUCING CARBON FOOTPRINT – CARBONEMISSION AT 1.6/T OF BOARD IS THE LOWEST IN THE COUNTRY	ITC's Watershed Development initiative brings precious water to over 54,000 hectares of dry lands and moisture-stressed areas
ITC Group provides direct employment to over 29,000 people.	ITC Royal Gardenia and ITC Green Centre are two of the world's largest LEED Platinum rated green buildings. Environment, Health and Safety Management Systems in ITC conform to international standards.	ITC's Sustainable Community Development initiatives include women's empowerment, supplementary education and integrated animal husbandry programmes

Source : ITC Sustainability Reporting (2009-10)





Source : ITC Sustainability Reporting(2009-10)

ITC's avowed mission is: Enduring value- for the nation, for the shareholders. ITC has always believed in creating enduring value through its businesses, and as such, focused on creating sustainable businesses and livelihood opportunities. It is continuously putting efforts to constantly achieve higher levels of Triple Bottom line performance – measured on their performance in economic, environmental and social terms.

Concluding

The concept of sustainable development has been transposed from the macro to the corporate dimension in as much as a corporate entity is a productive agent of our socio-economic system, a conduit of the eventual implementation of sustainable issues and a socially responsible citizen. Sustainability concept has been gradually gaining worldwide recognition and acceptance. Thousands of companies throughout the world are currently using sustainability reporting as a means of communicating with their stakeholders as well as a tool of internal management and control. The emerging paradigm of companies appearing socially and environmentally responsible is ushering into an optimistic journey in creating summum bonum of people at large and leaving a green and pleasant planet for the baby to see the light tomorrow-the sun will rise, the bird will be on the wing in the blue, the cuckoo will sing, trees will dance, hundreds of flowers will bloom, the gentle breeze will blow and the river will flow … live and let live others peacefully. ❒

Leadership and Strategy For the Future World

Om Prakash Dani

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Strategy is to leadership what is compass or a map to the captain of a ship; it provides a broad map for navigating the corporate ship to its goals. The most important part of an effective strategy is its ability to anticipate future possibilities and opportunities and provide a roadmap for building a successful future. What is the type or nature of leadership and strategy which can steer an organisation triumphantly into the future? This article examines this question in the light of an integral approach to management. The format of the article is in the form of critical questions on the subject and in this article we are using the thoughtful questions raised by the well-known strategy consultant and business writer, Rowan Gibson in a book edited by him.

The Future Perspective

Are organisations spending too much time managing the present and not enough time for the future? Why is it so challenging to think strategically about the future? And how do you create the incentives within an organisation to do so?

Most of the executives are under great pressure to achieve short-term targets. The present corporate environment rewards short-term performance and not long-term effectiveness. So executives and firms don't have the incentives or inclination to think about the future.

But this applies only to the average company or the executive. If you look beyond the average to the extraordinary performers we will find most of them have a strong orientation towards the future. For example, James S. Burke, former CEO of Johnson and Johnson, states in an interview that when he meets managers he never asks what they are doing at present but always asks, what are their future plans or goals and how they are going to achieve them. Similarly, in GEC, the entire management team of each division goes to its famous leadership training centre where the main focus is on creating an action plan for the future growth of the division through a process of free and intense discussion.

This brings us to different ways of building the future. In fact, almost all companies or entrepreneurs do some kind of planning for the future. But most of them are extensions or repetitions of the past. For example, if you are running a restaurant, you plan for some more restaurants of the same kind in other locations. But this can also be done in an innovative way like making the new restaurants better than the first in terms of efficiency, productivity, quality, customer service, interior decoration or else like McDonald or Starbucks, strive for a massive standardized expansion in scale and volume. The second way is to identify a new business opportunity with great potential in the future, like for example GEC's venture into the domain of green energy. The third approach to the future is to discover an unmet need in the market and build a new venture like Ted Turner of CNN spotting the unmet need in news and building a 24-hour news channel. The fourth way is through innovations in product development like Sony's Walkman or Tata's Nano. Building the future through a repetitive expansion of the past is less challenging than creating a new future, which requires intuition, imagination, and innovation.

But in a broader perspective, the main objective of management is not futurism per se, but long-term effectiveness of the organisation. Futurism is only one aspect of this long-term viability of an organisation, which requires reconciling, stability and continuity with change, progress and future growth. Stability and continuity comes from shared values which are in harmony with the universal laws of life and higher nature of human beings like truth, beauty, goodness, liberty, equality and fraternity. Progress and growth come from a constant quest for the new, better and perfect in every activity of the individual and corporate life.

How to create the incentive for people to think and act in the long-term? The only effective way is to evolve a performance management system which rewards factors that lead to long-term performance like character, ethics, values, customer-orientation, quality, creativity, learning, quest for progress and perfection, social responsibility, caring for human wellbeing and development of people.

Implementing Strategy

Who should a company involve in the process of developing and implementing strategy? What should be the role of senior management in the process?

Until now, strategy-making is the function of top or senior management. But some management thinkers are counselling for the "democratization of strategy." For example Gary Hamel argues that there must be a greater participation from the younger members of the organisation and from the lower levels of the hierarchy, especially the front-line workers who are in direct contact with the customers. As Hamel explains :

"If you want to create a point of view about the future, if you want to craft a meaningful strategy, you have to create in your company a hierarchy of imagination. And that means giving a disproportionate share of voice to the people who up until now have been disenfranchised from the strategy-making process. It means giving a disproportionate share of voice to the young people. It means giving a disproportionate share of voice to the geographic periphery of your organization—because, typically, the farther away you are from headquarters, the more creative people are: they don't have the dead hand of bureaucracy and orthodoxy on them. And it means giving a disproportionate share of voice to newcomers."

There is a valid point in this proposition of Gary Hamel. However, we must also take into consideration the temperament and capability of people. Strategic thinking requires a well-developed conceptual mind with a capacity for seeing the big-picture, holistic and long-term perspective and a visionary gaze into future possibilities. There can be a greater participation on strategy-making from all the levels of hierarchy. For example, something like quality-circles in Total Quality Management, there can be some form of strategy circles, where people from all levels of the hierarchy are called upon to give their ideas and suggestions. But the core process of strategy-making has to be done by people who have the temperament and capacity for strategic thinking with inputs from field-executives who have to implement the strategy. Ideally, the strategy-building team should have the following categories of people :

1. Strategic thinkers with the conceptual abilities for long-term and big-picture thinking.

2. Frontline workers and employees who have the best understanding of the changing external environment and customer needs, mostly from marketing and sales.

3. Field executives who have to implement the strategy.

4. Representatives from finance and productions.

Technology and Competitive Advantage

How important will technology be in creating a competitive advantage in the future?

Technology will remain as an important factor in gaining competitive advantage. However, in the corporate world, what is more important than acquiring cutting-edge technology or achieving technological break-throughs by R & D, is how technology is applied for enhancing organisational effectiveness and maximising customer satisfaction. As the well-known strategy specialist, Michael Porter, points out :

"I believe that every company has to master, or at least have the capacity to assimilate, the range of technologies that are affecting the way it goes about delivering value to its customers. I would say, from looking at many industries that a sheer scientific breakthrough, or the ability to have the most scientific technological capability in a particular field, does not seem to be that important. It's more the ability to apply technology that is the source of advantage. And to apply technology you've got to integrate it with a lot of other things. So we find over and over again that the first one to market with a new technology is often not the winner in the marketplace. The winner is the one that figures out how to incorporate that technology into the broader system of the company."

So, in a long-term perspective, the more strategically important factor than technology will be how effectively we are able to harness and unleash the creative potentialities of the people who will be creating, using, and applying technology.

The Old and New Leadership

What will be the essential difference between the old and new leadership?

The mantra of old leadership is Enforcement by Rules and Regulation Law. The mantra of new leadership is Unfoldment through Liberty or in the striking phrase of Tom Peters : "Liberation Management". The main challenge of new leadership is to create an environment which leads to a free and harmonious unfoldment of human potential in the consciousness of the individual and the group and an equally free and harmonious self-expression of this unfolding human potential in the outer life of the group.

The values of old leadership are authority, hierarchy, command and control, fear of punishment, lure of reward, rules and regulation, rigid dogma or ideology, order of uniformity, rational analysis. The values of new leadership are living examples—empowerment, intuition, vision, empathy, understanding, purpose, values, nondogmatic flexibility and integrating diversity. The old leader is bent on managing others, but the new leader is anchored in self-management. The old leader is satisfied with the routine and efficiency of statuesque. The new leader has to embrace change and foster creativity, innovation, evolution and spiritual growth.

This doesn't mean the new leader will be a soft and saintly weakling. He can be firm or even aggressive—if the situation demands such an action or behaviour. He will not entirely reject the values of old leadership. He is not also dogmatically attached to the new values. As we have indicated earlier, a nondogmatic flexibility is one of the main qualities of the new leader. He will intuitively perceive the holistic truth of each situation and do what is to be done in the present condition for upholding his personal or organizational values. For example, though he is personally inclined to the principle of minimum rules and maximum freedom, he will not hesitate to enforce strict rules temporarily—when freedom degenerates into chaotic license. He will be kind and magnanimous to those who use their freedom with responsibility and patient with those who make mistakes out of weakness or incompetence. But he will be firm or severe with those who violate values or trample down on others freedom or exploit the weak out of an aggressive and arrogant egoism. In the difficult task of upholding ideals without losing hold on present realities, he will be a pragmatic idealist. He is ready to compromise in the short-term in order to gain in the long-term, like what Sri Aurobindo wrote on a great Indian leader :

"Though he can be obstinate and iron willed when his mind is made up as to the necessity of a course of action or recognition of a principle, he is always ready for compromise which will allow real work to be done, and will take willingly half a loaf rather than no bread, though always with a full intention of getting the whole bread in good time."

And, finally, the new leader perceives the truth of spiritual evolution of consciousness and the need for spiritual progress. He understands that only in the intuitive knowledge of the spiritual consciousness of unity where he can feel his oneness with all existence, he can unify and harmonise the interests, claims and realities of life with the higher values and ideals of the mind and spirit. So, the new leader strives consciously to attain this spiritual consciousness and intuitive knowledge through an inner discipline.

In the segment of life he leads, he will felicitate this higher evolution of consciousness within his sphere of influence. The eminent scientist and evolutionary thinker, Teil-hard-de-chardin, coined the world "Evolutor." He said, the divine is the Evolutor which means He makes the world evolve towards higher orders of life. The New Leader will be such an evolutor and a human representative of the Divine Evolutor.

Building Distributed Leadership

How can we encourage leadership at all the levels of the organisation?

First of all we must be clear about what does it mean by "encouraging leadership" at all the levels of the organisation. It means empowering employees at all levels to take operational or executive decisions without any supervision, interference or control by those in the higher levels of the organisation. Let us now examine what are the conditions or the environment which can make it happen.

First condition is a shared vision, values and principles which provides the overarching guiding light for employees to know whether their decisions are in harmony with the higher purpose or what Tom Peters described as the "superordinate goals" of the organisation.

The second factor is Commitment to Performance Standards. Power and responsibility go together. Empowerment works only when people who are empowered are made accountable to clear performance standards which are not imposed upon them from above, but evolved through a process of consultation and dialogue. In other words, there must be voluntarily commitment to clearly defined performance standards.

The third factor is Capacity-building. An employee cannot be considered as fully empowered if he doesn't have the capability to achieve the performance standards. This task of capacity-building has to begin at the stage of recruitment. The management has to ensure that each employee has a job which is in harmony with his/her natural temperament and capabilities. In the next stage, every employee has to be provided with the necessary information and continuous training for developing the knowledge and skill and qualities for the living values of the organisation and achieving the performance standards.

The third condition is full development of the human potential in each individual. The employee development programmes must go beyond capacity-building for performance and aim at a holistic awakening of the human potential in all the levels—physical, emotional, mental, ethical, aesthetic and spiritual.

The fourth condition is to create a Culture of borderless collaboration and sharing. In the new corporate environment—where everything is interlinked and interdependent—nothing can be achieved without collaboration and teamwork. So the management has to create an environment where there is sufficient incentives, encouragement and motivation for a free flow and sharing of knowledge, information and resources across the various divisions of the organisation.

Creating a Meaningful Purpose

Is it the organization's responsibility to give people a purpose in life?

It is always desirable for an organisation to hold a purpose which provides a greater meaning to work than mere livelihood or money-making. Without this higher purpose, people will have no motivation to give all their mind and heart and potentialities for the organisation. Here comes the limitation of some of new trends and concepts in management like "employability." According to this new concept advocated by some management academics, job security is no longer possible in the new workplace. Companies can only offer "employability" which means provide the opportunity and experience to develop the professional competence which makes the corporate worker employable elsewhere. But such a contractual approach to people offers no meaningful motivation to employees to give their mind and heart to the organisation. In this approach, the organisation becomes more or less a soulless workshop for developing skills which can be sold elsewhere. As Charles Hardy, the well-known British management thinkerargues :

"If you want to retain talent you've got to create a cause. Otherwise you get a purely instrumental relationship in which I'm working for you purely because I'm earning money, or because it's teaching me some skills which I will go somewhere else and use. Then you get very short-term thinking, very selfish thinking."

Similarly, according to Warren Bennis, another eminent management thinker, the most important function of leadership is to create a shared sense of purpose. As this well-known leadership guru explains :

"What leaders have to realize is that people would much rather live a life dedicated to an idea or a cause that they believe in, than lead a life of aimless diversion. I think that's what effective leaders are all about and that's what creative collaboration is all about. It's about creating a shared sense of purpose. Because people really need not only purpose but 'meaningful purpose'. That's why we live. And I think that the power of an organisation will be that shared sense of purpose. With a purpose like that you can achieve anything." ❐

Kolkata, the 24th July, 2012

NOTIFICATION

18-CWR (1618)/2012 : It is hereby notified in pursuance of amended 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 name of :

1. Shri Shroff Gavisettappa Ravikumar, BCOM,FCMA, # 1545, 39th Cross, 22nd Main, Jayanagar 4th, 'T' Block, Bangalore 560041 (Membership No.5806) with effect from 24th July, 2012.

Sd/-
(Rakesh Singh)
President

Kolkata, the 7th August, 2012

NOTIFICATION

18-CWR (1619)/2012 : It is hereby notified in pursuance of amended 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 name of :

1. Shri Pawan Kumar Verma, BCOM,FCMA, 2nd Floor, Balaji Building,Up Stairs Dr. Bowry Clinic, Bazar Panj Peer, Near Bhagat Singh Chowk, Jalandhar City - 144001 (Membership No.13570) with effect from 7th August, 2012.

Sd/-
(Rakesh Singh)
President

Kolkata, the 28th June, 2012

NOTIFICATION

16-CWR (8809-8853)/2012: In pursuance of Regulation 16 of the Cost and Works Accountants Regulations, 1959, it is hereby notified that in exercise of powers conferred by sub-section (1) (a) of Section 20 of the Cost and Works Accountants Act, 1959, the Council of the Institute of Cost Accountants of India has removed from the Register of Members, the name of :

1. Shri Hemandra Narandas Shah, BCOM(HONS), ACA, ACMA, 34, Meera, 7th Floor, 18, L.D. Ruparel Marg, Mumbai- 400006, Maharashtra, (Membership No. 1944) with effect from 12th May, 2012.
2. Shri Om Prakash Gupta, BSC, ACMA(UK), ACMA, Flat # 2366, Green View Apartments, Sector `B`, Pocket `2`, Vasant Kunj, New Delhi-110070, (Membership No. 775) with effect from 23rd November, 2011.
3. Shri Kousik Basu, BCOM, ACMA, 35/2/1, Chanditala Main Road, (Near Chanditala Aryapally), P.O. New Alipur, Kolkata-700053, West Bengal, (Membership No. 23877) with effect from 15th December, 2008.
4. Shri Chitrapu Bhaskara Rao, MCOM, ACMA, Dy. General Manager (F & A), Bharat Heavy Electricals Ltd., Ravindranath Tagore Road, Machilipatnam-521001, (Membership No. 954) with effect from 2nd February, 2011.
5. Shri Apan Ghosh, BCOM, ACMA, Accounts Officer, Oil India Limited, S & 1A Dept., P.O. Duliagange, Assam-786602, (Membership No. 19169) with effect from 14th April, 2009.
6. Shri P. S. Hariharan, BCOM, ACS, ACMA, "Kausthubham", 32, Rajendra Nagar, Narasimhanaicken Palayam P.O., Coimbatore - 641031, Tamil Nadu, (Membership No. 995) with effect from 30th April, 2012.
7. Shri Ranbir Kumar Dubb, BCOM, FCMA, R. K. Dubb & Associates, H. No. 894, Sector 41-A, Chandigarh - 160036, UNION TERRITORY OF CHANDIGARH, (Membership No. 7928) with effect from 13th February, 2012.
8. Shri Ranjit Kumar Gupta, BSC, LLB, ACS, FCMA, Manager (Fin.), Hindustan Paper Corporation Ltd., Cachar Paper Mill, Panchgram - 788802, Assam, (Membership No. 4438) with effect from 27th September, 2011.
9. Shri Vinod Chand Katoch, BCOM, ACMA, B-82, Farihills, CGHS., Sector-21 D, Faridabad - 121008, (Membership No. 20869), with effect from 2nd December, 2010.
10. Shri T. R. Siva Kumar, MCOM, ACMA, E-33, Bharathi Dasan Salai, Block-9, Neyveli - 607801, (Membership No. 15889) with effect from 4th January, 2011.
11. Shri P. P. Naik, MCOM, LLB(GEN.), ACMA, Cost Accountant, M/s. Colgate Palmolive (I) Ltd., Apeejay House, 3, Dinshawvachha Road, Mumbai-400020, Maharashtra, (Membership No. 14517) with effect from 15th February, 2011.
12. Shri Prasanta Kumar Basu, MA, FCMA, C/o. Dr. Kunal Basu, 14/3, Geetanjali Complex, T.T.Nagar, Bhopal - 462003, (Membership No. 465) with effect from 18th March, 2011.

13. Shri K. S. Ravindran, BSC, FCMA, Ravindran & Associates, Sruthi, Ragamalikapuram, Kottappuram - 680004, Kerala, (Membership No. 5017) with effect from 9th December, 2010.
14. Shri Mushti Sesh Avadhanulu, BSC, ACA, ACMA, 68-11-6/2, Rajeswari Nagar, Engineering College Post, Kakinada - 533003, (Membership No. 3800) with effect from 29th June, 2010.
15. Shri K. Gurunadha Row, MCOM, MBA, ACMA, 43-9-11, Rly. New Colony, Visakhapatnam - 530016, (Membership No. 18037) with effect from 6th February, 2011.
16. Shri D. Dhananjai, MCOM,ACMA, \`Sai Sudha\`,38-19-10/10A, Jyothi Nagar, Marripalem, Visakhapatnam - 530018, (Membership No. 21678) with effect from 9th February, 2010.
17. Shri Ramesh Chandra Malhan, FCMA(UK), AMBIM, FCMA, 251, RPS Scheme, Sheikh Sarani, Phase I, New Delhi - 110017, (Membership No. 252) with effect from 4th November, 2011.
18. Shri Adhir Kumar Biswas, BCOM, ACMA, 13, Kedarnath Bhattacharjee Lane, Kolkata - 700036, (Membership No. 574) with effect from 2nd January, 2012.
19. Shri Roshan Lal Bhatia, BA, FCMA, E-311, East of Kailash, New Delhi - 110065, (Membership No. 801) with effect from 10th June, 2007.
20. Shri Kailash Chander Jain, BCOM, LLB, FCMA, D-191, Hanuman Nagar, P.O. Vaishali Nagar, Jaipur - 302021, Rajasthan, (Membership No. 3823) with effect from 4th April, 2012.
21. Shri Punyaprakash Parshuram Sharma, BCOM(HONS), FCMA, P.P. Sharma & Co., 3, Pragati Apartments, Shridhar Nagar, Chinchwad, Pune - 411033, Maharashtra, (Membership No. 3846) with effect from 16th January, 2011.
22. Shri Bahadur Lal, BA(COM), LLB, FCA, ACMA, A-12, Green Park Extn., (Behind State Bank of India), New Delhi - 110016, (Membership No. 1540) with effect from 8th March, 2009.
23. Shri Omprakash Dwarkaprasa Lalpuria, MCOM, ACMA, 14, Adarsh, 9/83, Nehru Road, Vite Parle (E), Mumbai - 400057, (Membership No. 3676) with effect from 15th June, 2004.
24. Shri Arindam Sadhukhan, MCOM, ACMA, Divisional Accountant, Damodar Valley Corporation, GOMO - I, 31/1, Andul Road, Howrah - 711109, (Membership No. 30918) with effect from 6th January, 2012.
25. Shri Satyaveer Singh, BSC, ACMA, SMQ P-78/3, Bani Camp Air Force Station, Najafgarh, New Delhi - 110043, (Membership No. 28395) with effect from 5th April, 2004.
26. Shri Biswa Ranjan Sen Mazumder, BCOM, ACMA, Flat CS-17/1, Golf Green, Kolkata - 700045, (Membership No. 3376) with effect from February, 2009.
27. Shri R. Sethuraman, BCOM, ACMA, A-4, Krishna, Plot 17-C, Bangur Nagar, Goregaon (W), Mumbai - 400090, (Membership No. 3378) with effect from 15th February, 2009.
28. Shri Manabendramohan Roy, FCA, ACMA, P-171, Regent Estate, Kolkata - 700092, (Membership No. 19494) with effect from 30th May, 2002
29. Shri Yeshwant Deoji Doshi, BA, ACMA, 1/27, Ramjharukha, S.V. Road, Andheri (W), Mumbai - 400058, Maharashtra, (Membership No. 3899) with effect from 11th December, 2006.
30. Shri D. Natarajan, BBA,BGL,MBA(FIN.),BL,FCS,ACIS(LONDON),FCMA, No. 7, G1, Rahul Residency, Mukthanji Street, Alandur, Chennai - 600016, Tamil Nadu, (Membership No. 20639) with effect from 9th June, 2011.

31. Shri Mangi Lall Rustagi, BCOM(HONS), MA, ACMA, ACMA, Financial Controller, Indo-Swiss Time Ltd., A-23, New Shopping Complex, Defence Colony, New Delhi - 110024, (Membership No. 2557) with effect from February, 2005
32. Shri Ratan Lal, BA, ACMA, Bahadrabad - 249402, (Membership No. 3187) with effect from 24th February, 2003.
33. Shri Ramesh Narayan Rahurkar, BCOM(HONS), ACMA, 21, Guruwar Peth, Pune - 411042, (Membership No. 2737) with effect from 16th May, 1998.
34. Shri Surendra Laxmichand Nagda, BCOM, FCMA, DA 18, Clarion Park, D.P. Road, Aundh, Pune - 411007, Maharashtra, (Membership No. 2590) with effect from 15th December, 2011.
35. Shri Vithala Viswanadham, ACMA(UK), FCMA, C-25/217, MIG Colony, Gandhinagar, Bandra East, Mumbai - 400051, Maharashtra, (Membership No. 797) with effect from 16th March, 2012.
36. Shri S. Ramaswami, ACMA, Flat No. B - 201, Walnut Block, Prince Greenwoods Apartments, No. 66, Vanagaram Road, Athipet, Ambattur, Chennai - 600058, Tamil Nadu, (Membership No. 3356) with effect from 4th April, 2011.
37. Shri Panchanan Maity, BA(HONS), MA(COM), FCMA(UK), FCMA, Plot 834, Block P, New Alipore, Kolkata - 700053, (Membership No. 565) with effect from 11th May, 2012.
38. Shri Siba Prasad Ray, MCOM, ACMA, 16, Nandana Park, Kolkata - 700034, (Membership No. 1242) with effect from 12th November, 2007.
39. Shri S. Som, BCOM(HONS), LLB, ACMA, 32/1, Dharma Das Ganguly Lane, Shibpur, Howrah - 711102, (Membership No. 11426) with effect from 3rd December, 2011.
40. Shri Amitava Bhattacharyya, MCOM, LLB, FCMA, Surya Fern Enclave, Flat 4F, 14, Ballygunge Station Road, Kolkata - 700019, (Membership No. 2209) with effect from 8th November, 2004.
41. Shri Dattatreya Ramchandra Moghe, MA, LLB, FCMA, C/o. Sudhir Behese, "Dattatrya Sinvati", Row House No. 33, Swaroop Park Housing Society,Kottired, Pune - 411029, (Membership No. 944) with effect from 13th December, 2011.
42. Shri Sistla Purnananda Sarma, BCOM, FCMA, Plot No - 8, Ground Floor, Hastinapuram South, Hyderabad - 500079, Andhra Pradesh, (Membership No. 5094) with effect from 10th November, 2009.
43. Shri Hariprasad Chakraborti, MCOM, ACMA(UK)(LONDON), FCMA, 64/1/53, Khudiram Bose Sarani, Flat-1B, Milk Colony, Kolkata - 700037, (Membership No. 983) with effect from 12th March, 2011.
44. Shri S. Muralidharan, MCOM, FCMA, New No. 11 (Old No. 6), Murthy Street, Anupam`s Padma Nilayam, III Floor, West Mambalam, Chennai - 600033, (Membership No. 6383 or 8398) with effect from 3rd February, 2012.
45. Shri Pramod Dattatraya Parkhi, BA(HONS), MSC, FCMA, P.D. Parkhi & Co., Office No.719, Budhwar Peth, Ganesh Road, Pune - 411002, Maharashtra, (Membership No. 2732) with effect from 24th September, 2011.

On account of death.

(M. Gopalakrishnan)
President

Kolkata, the 28th June, 2012

NOTIFICATION

16-CWR (8854 - 8865)/2012: In pursuance of Regulation 16 of the Cost and Works Accountants Regulations, 1959, it is hereby notified that in exercise of powers conferred by sub-section (1) (b) of Section 20 of the Cost and Works Accountants Act, 1959, the Council of the Institute of Cost Accountants of India has removed from the Register of Members, the name of :

1. Shri P Vijayagopal, BCOM, FCMA, IC Eastwood firmont Gardens, 66, Mount Poonamallee Road, Manapakkam, Chennai - 600089, (Membership No. 3398) with effect from 21st February, 2011 at his own request.
2. Shri R. Krishnaswamy, BCOM, BL, ACMA, B3, Hemraj Apartment, 122, Shivaji Nagar, Nagpur - 440010, Maharashtra, (Membership No. 1997) with effect from 1st April, 2012 at his own request.
3. Shri Lalpat Rai Puri, BA(COM), FCMA(UK), ACMA, Nehru House, 4, B.S.Z. Marg, New Delhi - 110002, (Membership No. 1412) with effect from 10th January, 2012 at his own request.
4. Shri Gopalan Govindarajalu, BA(HONS), ACMA, 24, Ramakrishna Road, Ground Floor, COX Town, Bangalore - 560005, (Membership No. 4087) with effect from 28th Novemver, 2011 at his own request.
5. Shri Ravindranath Menon, BCOM, CMA, MBA, ACMA, No. 15 Royal Crest Way NW, (Membership No. 4390) with effect from 1st June, 2007 at his own request.
6. Shri Suresh Narshingrao Argade, BCOM, LLB, ACMA, Hanuman Chowk, Maruti Darshan, Navghar Road,502 A Wing, Mulund (East), Mumbai - Maharashtra, (Membership No. 2603) with effect from 6th March, 2012 at his own request.
7. Shri A. R. Dharma Row, ACMA(UK), FCMA, Geetanjali, Plot No.45, 1-3-183/40/21/45, P&T Colony New Bakaram, Gandhinagar, Hyderabad - 500380, (Membership No. 726) with effect from 1989 at his own request.
8. Shri Om Prakash, BCOM, FCMA, Om Parkash & Co., 206, ShreeBusiness Centre, H/58, Laxmi Nagar, Vikas Marg, Delhi - 110092, (Membership No. 552) with effect from 1st January, 2012 at his own request.
9. Shri P. S. Seshan, BSC, ACMA, Plot No. 26, N.T.R. Garden, Rajakilapakkam, Chennai - 600073, (Membership No. 1571) with effect from 17th May, 2012 at his own request.
10. Shri Sundar Ravindran, ACMA, G003, Renaissance Mangalam, 40, 13th Cross Road, Between 10th & 11th Main Road, Malleswaram, Bangalore - 560003, Karnataka, (Membership No. 6696) with effect from 1st April, 2012 at his own request.
11. Shri V. K. Rama Ratnam, ACMA, 7A, Myne Teppakulam, I Street, East Gate, Madurai - 625001, (Membership No. 1937) with effect from 1st April, 2012 at his own request.
12. Shri L. V. Sharma, BSC, ACMA, Flat 7A, `A` Building, Harbour Heights, Colaba, Mumbai - 400005, (Membership No. 3568) with effect from 1st April, 2012 at his own request.

Sd/-
(M. Gopalakrishnan)
President

Admission to Membership

The Institute of Cost Accountants of India

Advancement to Fellowship
Date of Advancement : 28th August 2012

M/2964
Shri Bikash Kumar Ray
BCOM, FCMA
B-707/708, Lok Darshan, Military Road, Marol, Andheri (E),
Mumbai 400 059

M/5249
Shri Asish Kumar Chattopadhyay
BA(HONS), FCMA
38A, Bakul Bagan Road,
Kolkata 700 025

M/6618
Shri Debansu Ghosh
BSC, FCMA
P-12, Matilal Gupta Road, P.O. Haridevpur,
Kolkata 700 082

M/7201
Shri Amal Kumar Kundu
MCOM, FCMA
Dy. G.M. (Finance) & Chief Risk Officer, TELCO Construction Equipments Co. Ltd., Jubilee Building, 45, Museum Road,
Bangalore 560 025

M/7677
Shri Sriramachandra Murthy Sripada
BCOM, FCMA
A-509, Siddamsetty Towers, Jawahar Nagar, Bakaram,
Hyderabad 500 020

M/9232
Shri Maiku Lal Sahu
BSC, FCMA
M.L. Sahu & Associates, D-197, Harihar Nagar, Indira Nagar,
Lucknow 226 016

M/9891
Shri Tapadhan Roy
BCOM, FCMA
Gokul Bhaban, Flat No. 11, Baroaritola Lane, Mokdumpur, Malda 732 103

M/9929
Dr. Krishan Kumar Gupta
MCOM, M.PHIL, PHD, FCMA
1/20, Housing Board Colony, Devipura,
Sikar 332 001

M/11108
Shri Ramamani Balaji
FCA, CMA(USA), AMA (AUS), CIA, FCMA
P.O. Box 978, `Ganga`, 150, Innukshuk 24th Avenue, Rankin Inlet, Nunavut 0

M/11300
Ms. Geetha P.
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Guidance Note on Maintenance of Cost Accounting Records

Highlights of Guidance Note:

- Thorough and comprehensive after the series of notifications and circulars issued by the Ministry of Corporate Affairs in the last one year.
- Provides guidance on Accounting and treatment of all elements of Costs in accordance with GACAP & CAS issued by the Institute
- Provides Illustrative list of cost records to be maintained by the companies
- Provides practical approach towards cost build-up for a Production/ Manufacturing Industry
- Appendices to the Guidance Note contain the Notifications, Master Circulars and General Circulars related to the Cost Accounting Records Rules, issued by the Ministry of Corporate Affairs till 4th June, 2012.

Issued By:

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THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

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The Institute of Cost Accountants of India

(Continuing Education Programme Directorate)

Guidelines for Mandatory Training for All Members of ICAI Under Continuing Education Programme

Modification to Existing Scheme

To meet the requirement of professional skills in the current changing dynamic economic scenario, Cost Accountants in practice and service (members of ICAI) should equip themselves with the new skills and concepts to meet the challenges and render yeomen's services to trade, commerce and industry. Therefore, the existing scheme for mandatory training to the members in practice and service under Continuing Education Programme (CEP) has been revised. The basic features of the revised scheme are :

For Members in Practice

(i) The member should undergo minimum mandatory training of 10 hours per year w.e.f. 2009-10.(1st April to 31st March every year)

(ii) The certificate of attendance for training will have to be enclosed with the application for renewal of Certificate of Practice.

For Members in Service

(iii) The member should undergo minimum mandatory training of 6 hours per year w.e.f. 2011-12. (1st April to 31st March every year)

(iv) The certificate of attendance for training will have to be enclosed with the application for renewal of membership.

The attendance of members in National Cost Convention, Regional Cost Convention, Seminars/Workshops conducted by the Institute/Regional Councils/Chapters (both paid/unpaid programme) will be reckoned against the requirement of mandatory training period under this scheme.

The requirement specified above will not apply to a member who has attained the age of 65 years.

The basis of computation of programme credit hours will be as follows :

Hours of Training Programme attended by the members	Programme Credit (Hours)
Less than 1 hour	Nil
I hour and more and upto 2 hours	1
More than 2 hours and upto 4 hours in a single day	2
Beyond 4 hours in a single day	4
Programmes for more than 1 day and upto 2 days	6
Programme spanning beyond 2 days	10

For this purpose, the participation of members in the following programmes/courses/ publications shall also be recognized :

1. Courses of the Universities recognised by the UGC/ AICTE approved Institutions

The members who have successfully completed any post graduate course related to commerce, economics and taxation of the UGC recognized University/ AICTE approved Institution will be awarded CEP credit of 5 hrs. for each semester based on submission of the pass certificate.

2. Service as a Speaker or Discussion Leader

Service as a lecturer or teacher in a program or seminar offered by business, professional associations and college or university professional education centres may be counted for continuing education credit as follows:

(1) Continuing education hours equal to twice the number of hours of presentation will be granted the first time the program is offered.

(2) Credit will not be granted for subsequent offerings unless significant additional preparation is necessary. For such repeat offerings credit will be granted only for the actual hours of presentation and only once each year.

The CEP credit will be given to the member only after getting the authenticated proof in this regard.

3. Service as a college faculty of approved Universities/Faculty of AICTE approved Institution/ ICAI Faculty

College courses or ICAI Course earn 3 CEP credits for each paper taught in a semester or stage.

4. Technical Materials Submitted for Publication

Technical articles, monographs, or books published are eligible for continuing education credit subject to they are in an International Standard Serial Number (ISSN)/ International Standard Book Number (ISBN) Published articles containing technical accounting and financial management material can earn a maximum of six hours each. Books and monographs can earn a maximum of 20 hours each only for the first time of publication. Subsequent publication of the same title will not be given CEP Hrs. unless there is a vast change in the new publication. The Institute will assign specific CEP hrs. on receipt of a copy of the publication.

5. (a) The members who are holding General manager or equivalent and above position working in an organization with turnover of Rs. 500 crores and also investment of more than Rs.100 crores in fixed assets will be exempt from CEP requirement.

(b) The training imparted by the organizations to their employees in their in-house training Institute, having turnover of Rs.100 crores or above per annum, are to be considered for calculation of CEP hours subject to :

(i) The training programme should be on the subject relating to costing/accounts/finance/taxation/ project finance/treasury management.

(ii) The organization shall submit their calendar of programmes to the Institute.

(iii) The organization shall submit list of Institute members with their name & membership number, details of programme attended & duration to the Institute after programme is completed.

(iv) Certificate of attendance of the programme shall be given to their employee with his membership number.

(c) The organization having turnover of Rs.100 crores or above, which nominates their employees for outside training programme from reputed Institutions on the subject mentioned Sl. No. 5(b)(i) shall also be considered for CEP hours provided they produce the certificate in this regard. Reputed Institutes include IIM, IIT, National Productivity Council/State Productivity Councils and others as may be approved by the Council and against reciprocal arrangement with sister professional Institute i.e. ICSI

6. Articles Published in Management Accountant

A member whose article is published in 'Management Accountant' only will be eligible for CEP hours as follows:

(a) Two hrs. for up-to 2 pages

(b) Four hrs. for 3-5 pages

(c) Six hrs. for above 5 pages

7. Members staying abroad can meet the CEP requirements by adopting any one or more of the following modus operandi

(a) Attend CEP programmes organized by the CEP Department of the Institute, Regional Councils and Chapters – (visit www.icwai.org)

(b) Attend CEP Programmes organized only by IFAC/CAPA/ SAFA Member Bodies abroad. For this members has to submit the following :

(i) Self certification letter by the members regarding the programme attended by them for approval of CEP Hrs.

(ii) Membership number and name as per Institute's records.

(c) Members staying abroad can meet the CEP requirements by attending the programmes organized by the Overseas centres of the Institute in addition to the programmes organized by the Institute and its Regions and Chapters.

8. The Council approved the following guidelines

(a) The members who reside outside India for a part of the year may be exempted from credit hours requirement for the same year on submission of valid documents in support of the same.

(b) The members who are victimized by polio or accident or physically handicapped may be exempted from fulfilling the requirement of CEP hours on submission of valid documents in support of the same.

However, no such exemption/relaxation as mentioned in clauses (a) & (c) above would be given to a member who obtains membership of ICAI in accordance with the MOU entered into between IMA & ICAI.

9. A member who obtains membership in accordance with the MOU entered into between IMA,USA & The Institute of Cost Accountants of India (ICAI), should obtain minimum mandatory training of 30 hours per year as per the guidelines of IMA, USA.

10. A member who obtains membership in accordance with the MOU entered into between IMA, USA & The Institute of Cost Accountants of India (ICAI) and is over 55 years of age and retired from the profession is exempt from the CEP requirements.

11. A member who obtains membership in accordance with the MOU entered into between IPA, Australia & The Institute of Cost Accountants of India (ICAI) and is over 60 years of age and retired from the profession is exempt from the CEP requirements.

12. Attendance of the Members in the Meetings/Seminars/Workshops by SAFA/CAPA/IFAC or any other bodies where ICAI is a member will be reckoned against the requirement of mandatory training period under this scheme.

13. Guidelines for attending international seminars by the President, Vice President and Council Members

(i) Four CEP Hours for attending one full day Programme/ Seminar/Workshop/Event

(ii) Six CEP hours for 2 days Programme/Seminars/Workshops/Event

(iii) Ten CEP hours for three days Programme/Seminar/ Workshop/Event

14. Guidelines for Chairing Programme/ Seminar/ Workshop/ Event by the President, Vice President and CCMs chairman and members of the Regional Council

(i) One CEP Hours for up to 2 hrs. Programme/ Seminar/ Workshop/ Event

(ii) Two CEP Hrs for more than 2 hrs. - up to 4 hrs. Programme/ Seminar/Workshop/Event

(iii) Four CEP Hours for more than four hrs. Programme/ Seminar/ Workshop/ Event

15. The Members attending the webinar /seminars/workshops/training programmes get two CEP hrs. for every three hrs. webinar/ seminars/workshops/training programmes organised by the Institute, provided they have to attend the webinar/seminar/workshop/training programme for full three hrs(Details to be announced soon).

16. The programmes organized by the CMA support Centres being established by the Institute at different locations are eligible to CEP hrs. as per the norms of the CEP guidelines.

17. The members attending the approved CMA study circles programmes being formed at different locations are eligible to the CEP hours as per the norms of the CEP Guidelines.

18. Members answering five questions successfully out of ten questions of each of the articles published in the Management Accountant on monthly basis will get one CEP Hour for every article(Details to be announced soon).

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
(statutory body under an Act of Parliament)

MANAGEMENT DEVELOPMENT PROGRAMMES 2012-13

DURATION	TOPIC	VENUE	FEE (RS.) NON – RESIDENTIAL	FEE (RS.) RESIDENTIAL SINGLE ROOM BASIS
SEPTEMBER, 2012				
11-14	Risk Based Internal Audit and corporate Governance	Pondicherry	-	35000*
11-14	Issues in Direct Taxation- Advance Tax, TDS and Tax Planning	Pondicherry		35000*
26-30	Certificate Course on IFRS and Converged Indian Accounting Standards	New Delhi	25000*	
OCTOBER, 2012				
09-12	Recent Trends in Corporate Reporting and corporate Finance including IFRS	Vayalar, (Backwater) Kerala	-	38000*
15-18	Emerging Issues in Management of Taxation	Goa	-	35000*
15-18	Activity Based Costing and Management	Goa	-	35000*
NOVEMBER, 2012				
20-23	Basic Financial Skills for Non Finance Executives and Engineers	Mysore		35000*
29 Nov. – Dec.8	International Programme on 'Strategic Financial Management'	Singapore, Kualalumpur & Bangkok	-	250000*
DECEMBER, 2012				
11-14	Recent Trends in Financial Management	Amritsar		35000*
18-21	Contracts and their Management	Shirdi	-	35000*
18-21	Emerging Issues in Direct and Indirect Taxation	Shirdi	-	35000*
26-30	Certificate Course on IFRS and Converged Indian Accounting Standards	Mumbai	25000*	-
JANUARY, 2013				
02-04	Costing for Engineers	Chennai	15000*	40000*
08-12	Recent Trends in Corporate Reporting including IFRS and Revised Schedule VI	Hyderabad	-	35000*
08-12	Advance Tax, TDS and Tax Planning	Hyderabad	-	35000*
FEBRUARY, 2013				
19-22	Risk Based Internal Audit for Effective Management Control	Puri	-	35000*
19-22	Emerging Issues in Management of Taxation	Puri	-	35000*

Note :- *Plus 12.36% Service Tax.

For Non-Residential Programmes - Fee includes course fee, course material, lunch, tea/coffee etc.

For Residential Programmes - Fee includes course fee, course material, accommodation on Single Room basis, all meals and visits. The charges for accompanying spouse would be Rs. 1000/- (Rupees one thousand only) towards accommodation, all meals and visits for all the three days excluding International programmes.

CEP Credit Hours - (For 1 Day Prog. - 4 Hours) (For 2 Days Prpg. - 6 Hours) (For 3 Days & more Prog.-10 Hours)

For Kind Information:

For outstation programmes the participants are requested to get the confirmation from the Institute before proceeding to the venue. If any participant reaches the venue for the postponed/cancelled programmes without getting the confirmation from the Institute, the Institute will not be held responsible for the same. The cancellation/postponement of the programmes, if any, will be intimated to only those organizations whose nominations have been received by the Institute on time.

For residential programmes normally the first day check-in is at 12.00 noon and last day check-out is at 12.00noon

The Payment of the Fee is to be made by Cheque/DD in favour of 'The Institute of Cost Accountants of India' payable at New Delhi.

Details for ECS Payment: State Bank of India (60321), Andhra Association Building, 24-25 Institutional Area, Lodhi Road, New Delhi- 110003 Current A/c No. 30678404793 MICR Code : 110002493 IFCS Code : SBIN0060321

The Institute of Cost Accountants of India

12, Sudder Street, Kolkata - 700 016

28th May, 2012

For Attention of Members
Election Reforms Committee

The members of the Institute are kindly aware that the Election to the 18th Council of the Institute of Cost Accountants of India were held in 2011 in accordance with the Cost and Works Accountants (Election to the Council) Rules, 2006 read with the Cost and Works Accountants Act, 1959 and the Cost and Works Accountants Regulations, 1959.

During the course of Elections, it was noted that the provisions of the Cost and Works Accountants (Election to the Council) Rules, 2006 are needed to be examined for reforms in the Election process.

Accordingly, the Council of the Institute at its 272nd Meeting held on 22nd January, 2012 considered the matter and constituted the Elections Reforms Committee comprising of the following members for the purpose of streamlining the process of conduct of Council elections and matters arising thereform :

1. Shri P. V. Bhattad, Chairman
2. Dr. P.V.S. Jagan Mohan Rao, Member
3. Shri T.C.A. Srinivasa Prasad, Member
4. Shri Sanjay Gupta, Member

Shri Kaushik Banerjee (Director & Joint Secretary) — Secretary

It was further decided that the Committee will invite suggestions from members of the Institute for proposing amendments to the Cost and Works Accountants (Election to the Council) Rules, 2006 (uploaded on our website www.icwai.org), fixing a time limit of six months. After receipt of the suggestions, the Committee will ascertain the various amendments that are needed to be made in the Election Rules for smooth conduct of Institute's Elections and place the same before the Council for recommending the amendments to the Central Government.

Accordingly, you are requested to send your valuable suggestions/comments on the Cost and Works Accountants (Election to the Council) Rules, 2006 for consideration of the Committee on or before 27th **November, 2012** :

(i) by post addressed to Shri Kaushik Banerjee, Secretary, Election Reforms Committee, The Institute of Cost Accountants of India, 12 Sudder Street, Kolkata - 700 016 superscribing on the envelope ''SUGGESTIONS FOR ELECTION REFORMS'' and/or

(ii) on e-mail id of Shri Kaushik Banerjee, Secretary, Election Reforms Committee, The Institute of Cost Accountants of India : addlsecy.kolkata@icwai.org with subject ''SUGGESTIONS FOR ELECTION REFORMS''.

For Attention of Members

The Institute has gone live with web based online applications for Associateship/Fellowship/ Certificate of Practice/Change of Address as well as online viewing of particulars like dues position, CEP status etc.

Members are requested to check their status from the link : **http://210.212.31.69/External/Home.aspx** to ensure that their profile details are complete and correct. If any discrepancy is noted, the same should be informed to the Membership Department<membership.pradipta@icwai.org>.

This will help us to serve you better.

Speech of SHRI ABDU RABB, Honourable Minister for Education, Government of Kerala at Trivandrum on 22nd August 2012

I am happy to be here in this Industry Seminar held under the auspices of CII. We are particularly delighted to have the presence of Shri. Ramadorai, Advisor to the Honourable Prime Minister on Skill Development.

What makes this event memorable is also that today we are signing the second MOU between the State Government and the Indian Cost Accounts Institute (ICAI). Once this MOU is in place every student in our Higher Secondary or Vocational Higher Secondary and the Under Graduate courses in colleges will get an opportunity to enroll for the Certificate Accounting Technician course. It has great potential and could well make Kerala one of the leading suppliers of trained manpower to the financial and banking sector in the country. I use this opportunity to welcome the President of the Institute and the other delegates who have flown down for this event.

Kerala is well known for its high quality manpower all over the world. There is no corner of the world where we cannot see trained and skilled Malayali. Though Kerala has a very rich talent pool, the present experience is that this pool is not equipped adequate to meet the needs of modern day industry and its emerging demands. It is estimated that only 25% of the rich talent pool that the State has is readily employable. Clearly the major hurdle in ensuring a readily employable talent pool is the lack of proper training infrastructure. There have been isolated initiatives by the both the Government and Private Sectors. But what is needed is a well planned and large scale initiative wherein all the potential departments, universities and institutions collaborate with the active involvement of industry. This is imperative to creating a labour market-ready workforce in the State. Design of skilling courses will have to be driven not by academic institutions alone as is the case now. Industry has to play a pivotal role and hence it has to be actively involved in the task, in the design, implementation and quality assessment. Industry will have to come forward to be a strong partner and this partnership will have to be in terms of sharing of infrastructure, human resources who can train people and other resources as well.

Some surveys reveal that there is a more acute degree of unemployment that is prevalent among people who have already acquired either a Higher Secondary Certificate or completed an undergraduate course from a college. If this is the predominant source of unemployment, the appropriate solution is to meaningful intervene and catch the students while they are still in academic institutions and provide them with skills relevant to modern industry.

To reiterate, one major factor that inflates the number of unemployed in the State is the poor employability of students graduating from majority of general academic courses, especially in the Arts and Science steams. These students are not adequately prepared to take up jobs in the organized sector in the rapidly changing and constantly adapting economic scenario. A general interaction with job providers confirms the skill deficiency in our students. We therefore propose to introduce additional skill acquisition programmes in Higher Secondary, Vocational Higher Secondary and Collegiate Education to ensure that our students that come out of our institutions are armed well to enter the labour market whether nationally or internationally.

Skill requirements of any industry keeps changing rapidly. It is imperative that gap analysis to assess the demand-supply skill mismatch should be undertaken at frequent intervals in various sectors of the economy. Otherwise, skill programmes run the danger of becoming obsolete very fast.

As I mentioned earlier, today we are signing the second MOU with the Cost Accountants Institute. Last month, we had signed a similar agreement with NASSCOM. We are looking forward to covering as many sectors as are relevant to meeting industry demand. This is where I have a request to make to CII. Your sector groups - be it in hospitality, electronics, retail, construction—should work with our Skill Development Team and help design the content for a variety of skill programmes. This alone will give the necessary industry endorsement to what we are doing—and make this exercise truly meaningful. CII should take initiative and collaborate closely with Government on these directions. One added advantage is that the students who get skilled through programmes supported by industry associations will have a greater confidence in these programmes.

Dr. Ramadorai has been ardent supporter of our efforts in skill development in particular. It is largely due to his encouragement and support that the officers who are working on this project derived the confidence and felt motivated to shape this project so quickly over the last few months. We are grateful for his support and request his continued guidance.

Once again let me congratulate and thank CII for organizing such an event in our State and offering a platform for Government and industry to collaborate and start working closely in the area of skill development.

Institute Notification

Kolkata 14th August, 2012

Notification No. CWR 10(1)/08/2012

In pursuance of proviso to sub-regulation (1) of Regulation 10 of the Cost and Works Accountants Regulations, 1959 as amended, the Council of the Institute at its 275th Meeting held on 21st July, 2012, has decided that the Certificate of Practice of the members who have paid the prescribed fees and submitted the prescribed from for renewal of Certificate of Practice for 2012-2013 within due date but not having requisite CEP credit hours, shall be renewed upto 31st March, 2013 without creating a precedence and their Certificate of Practice so renewed shall be valid subject to their obtaining requisite CEP credit hours within 31st December, 2012 positively.

Sd/-
(Rakesh Singh)
President

The Institute of Cost Accountants of India

(Statutory Body Under An Act of Parliament)

Examination Time Table & Programme – December 2012

Programme for Syllabus 2008

Day, Date & Time	Intermediate 09.30 A.M. to 12.30 P.M.	Final 02.00 P.M. to 05.00 P.M.	Foundation 02.00 P.M. to 05.00 P.M.
Monday 10 th December, 2012	Financial Accounting	Capital Market Analysis & Corporate Laws	
Tuesday 11 th December, 2012	____	Financial Management & International Finance	
Wednesday 12 th December, 2012	Commercial and Industrial Laws & Auditing	Management Accounting-Strategic Management	
Thursday 13 th December, 2012	Applied Direct Taxation	Indirect & Direct – Tax Management	
Friday 14th December, 2012	Cost & Management Accounting	Management Accounting – Enterprise Performance Management	Organisation and Management Fundamentals
Saturday 15 th December, 2012	____	Advanced Financial Accounting & Reporting	Accounting
Sunday 16 th December, 2012	Operation Management and Information Systems	Cost Audit & Operational Audit	Economics and Business Fundamentals
Monday 17 th December, 2012	Applied Indirect Taxation	Business Valuation Management	Business Mathematics and Statistics Fundamentals

Programme for Management Accountancy – December 2012 Examination

Monday 10th December, 2012 09.30 A.M. to 12.30 P.M.	Monday 10th December, 2012 02.00 P.M. to 05.00 P.M.	Tuesday 11th December, 2012 09.30 A.M. to 12.30 P.M.	Tuesday 11th December, 2012 02.00 P.M. to 05.00 P.M.	Wednesday 12th December, 2012 09.30 A.M. to 12.30 P.M.
Management Accountancy	Advance Management Techniques	Industrial Relations & Personnel Management	Marketing Organisation & Methods	Economic Planning & Development

Examination Fees

Groups (s)	Final Examination	Intermediate Examination	Foundation Course Examination	Management Accountancy Examination
One Group (Inland Centres) (Overseas Centres)	₹ 1250/- US $ 100	₹ 1000/- US $ 90	₹ 1000/- US $ 60	Per Group ₹ 2500/-
Two Groups (Inland Centres) (Overseas Centres)	₹ 2250/- US $ 100	₹ 1600/- US $ 90		

1. (a) Application Forms for Foundation Course, Intermediate and Final Examinations are available from Institute's Headquarters at 12, Sudder Street, Kolkata, Regional Councils and Chapters of the Institute on payment of ₹ 50/- per form. In case of overseas candidates, forms are available at Institute's Headquarters only on payment of US $ 10 per form.
(b) Students can also download the Examination Form from ICAI Website at www.icwai.org.
(c) Students can also submit the form online.
2. Last date for receipt of Examination Application Forms without late fees is 10th October, 2012 and with late fees of ₹ 300/- is 20th October, 2012.
3. Examination fees to be paid through Bank Demand Draft of requisite fees drawn in favour of "The Institute of Cost Accountants of India" and payable at Kolkata.
4. Students may submit their Examination Application Forms along with the fees at ICAI, 12 Sudder Street, Kolkata - 700016 or Regional Offices or Chapter Offices. Any query in this regard may be addressed to Examination Directorate at 12, Sudder Street, Kolkata - 700016.
5. Finance Act 2011, involving Assessment Year 2012-2013 will be applicable for the subjects Applied Direct Taxation (Intermediate), Applied Indirect Taxation (Intermediate) and Indirect & Direct - Tax Management (Final) for the purpose of December 2012 term of Examination under Revised Syllabus 2008.
6. Examination Centres: Adipur-Kachchh(Gujarat), Agartala, Ahmedabad, Akurdi, Allahabad, Asansol, Aurangabad, Bangalore, Baroda, Berhampur(Ganjam), Bhilai, Bhilwara, Bhopal, Bhubaneswar, Bilaspur, Bokaro, Calicut, Chandigarh, Chennai, Coimbatore, Cuttack, Dehradun, Delhi, Dhanbad, Durgapur, Ernakulam, Faridabad, Ghaziabad, Guwahati, Hardwar, Howrah, Hyderabad, Indore, Jaipur, Jabbalpur, Jalandhar, Jammu, Jamshedpur, Jodhpur, Kalyan, Kannur, Kanpur, Kolhapur, Kolkata, Kota, Kottayam, Lucknow, Ludhiana, Madurai, Mangalore, Mumbai, Mysore, Nagpur, Naihati, Nasik, Nellore, Neyveli, Noida, Panaji (Goa), Patiala, Patna, Pondicherry, Pune, Rajahmundry, Ranchi, Rourkela, Salem, Shillong, Solapur, Surat, Thrissur, Tiruchirapalli, Tirunelveli, Trivandrum, Udaipur, Vapi, Vashi, Vellore, Vijayawada, Vindhyanagar, Waltair and Overseas Centres at Bahrain, Dubai and Muscat.
7. A candidate who is completing all conditions will only be allowed to appear for examination.
8. Probable date of publication of result : Foundation – 1st February, 2013 and Inter & Final - 21st February, 2013.

A. Das
Director (Examination)


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Guests of Honour
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Union Minister for Corporate
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Chairman Advisory Committee
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Consulting
Institute of Directors was established on 12 July 1990 in India, as an apex association of Directors to improve their professional competence IOD India has since grown to associate with more than 30,000 senior executives representing prominent organisations from both the Private & Public sectors and Govt from India and abroad. IOD India's 'Masterclass for Directors', the training for corporate directorship & Golden Peacock Awards in 12 different disciplines and other flagship initiatives aimto improve the competitiveness of individual Directors and their organizations. The 'Masterclass' programme prepares participants to become Independent Directors of listed companies. Both have become global benchmarks. No business award today receives the kind of recognition and adulation among peers that the Golden Peacock does. Details on www.iodonline.com

REGIONS, CHAPTERS & CENTRES NEWS

WIRC

Nashik-Ojhar Chapter of Cost Accountants

A half day Seminar on recent changes in Service Tax was organized by NOCCA and Nasik Chapter of WIRC of ICSI on 16th July 2012. The need for this seminar was felt due to recent changes in Service Tax and introduction of negative list and change of reverse charge mechanism in certain services. Shri. R K Deodhar, leading consultant of Excise and Service tax spoke in detail on Negative List and Exempted services. CMA A. B. Nawal addressed the gathering on Reverse Charge and Bundled services and also explained about Declared Services. CMA N. K. Nimkar from Pune spoke on Place of Provision of services and Abatement. The session was interactive and it concluded with question and answer sessions wherein all the three faculties replied the queries raised by the participants.

CMA Pradnya Chandorker was the comparer and coordinator and CMA S W Parnerkar, Secretary of the Chapter welcomed the gathering and the speakers.

Pimpri-Chinchwad-Akurdi Chapter of Cost Accountants (PCACCA)

PCACCA has organized a program on ''Recent Developments in Cost Audit—Product Group Classification And Opportunities to Cost Accountants in Practice And Service'' at Hotel Kalasagar on 29th July 2012.

CMA Rakesh Singh, President of the Institute, graced the occasion with his presence who was felicitated by the members of PCACCA. CMA B. M. Sharma, past President of the Institute was the Guest of Honour. Felicitation ceremony started with welcome speech by CMA L. D. Pawar, Chairman PCACCA who gave a brief overview of the chapter activities and growth achieved during the past one year.

CMA Rakesh Singh, President addressed the audience and updated the audience about various initiatives of the Institute. He stressed upon the importance of IT backbone and development of Infrastructure for sustainable growth of the Institute. The President's address left the audience optimistic and confident about growth of brand image of the Institute. CMA B M Sharma spoke on the recent developments in Cost Audit and the plethora of opportunities available to Cost Accountants in both in practice and also in employment. He also covered various practical difficulties faced by Cost Accountants.

CMA L D. Pawar, Chairman of the Chapter felicitated the newly elected President with the famous 'Puneri Pagdi'. Guest of honor CMA B. M. Sharma was felicitated by CMA Ashish Deshmukh, Vice Chairman of the Chapter. On behalf of all students of PCACCA, Ms. Nutan Gurav, student of Final welcomed the Honorable President by presenting a bouquet to him as token of love and respect.

SIRC

Mettur-Salem Chapter of Cost Accountants (MSCCA)

MSCCA organized a workshop on ''Enabling Cost Competitiveness in the Industry—Role of Internal and External Cost Reporting'' at hotel Salem Shevaroys on 12th July 2012.

The welcome address was given by CMA K.M. Krishnamorthy, Chairman, MSCCA and the inaugural address was by Shri S. Devarajan, Chairman and Managing Director, Sambandam spinning mills Ltd. CMA M. Gopalakrishnan, the then President of the Institute, CMA T.C.A. Srinivasa Prasad, Council Member, CMA B.R. Prabhakar, the then Chirman, SIRC, CMA P. Raju Iyer, Secretary, SIRC and Shri Tamilarasan, General Manager (F&A), Salem steel plant graced the occasion and gave their views on the subject above. CMA M. Gopalakrishnan, in his presidential address, stated that placement facilities through campus recruitment at the offices of regional councils facilitated large number of final pass out students to get better placement in large companies like Coal India Ltd, ONGC, NMDC, Wipro, Vedanta etc.

CMA T.C.A. Srinivasa Prasad, Council Member, mentioned about new dimensions to cost accounting analyzed in depth the contemporary topics like Balanced Score Card, Supply Chain Analysis, Life Cycle Costing, Performance Analysis and Value Engineering.

The workshop concluded with the vote of thanks by CMA R. Gopal, Secretary, of the Chapter.

Trivandrum Chapter of Cost Accountants (TCCA)

TCCA celebrated the 66th Independence Day on 15th August 2012 at their Chapter premises at 9.00 AM.CMA N.P. Sukumaran, past President of the Institute hoisted the National Flag followed by the National Anthem. A large number of students, members and staff participated in the ceremony. At the end, sweets were distributed among them with greetings.

EIRC

Patna chapter of Cost Accountants (PCCA)

Eastern India Regional Council of The Institute of Cost Accountants of India in association with PCCA organized a National Seminar at Hotel Chanakya, Beer Chand Patel Marg, Patna, Bihar on 15th July 2012 on the Theme "Goods & Service Tax – Key issues & challenges".

Shri Sushil Kumar Modi, Hon'ble Deputy Chief Minister, Govt. of Bihar and Chairman of Empowered Committee of Goods & Service Tax was present on the occasion as Chief Guest Shri Shiva Kirti Singh, Hon'ble Justice, Patna High Court and Shri Navin Kumar, Chief Secretary, Govt. of Bihar were also present as the Guest of Honour.

Shri Amar Nath Singh, Chairman, Patna Chapter welcomed the guests and Shri Saswata Dasgupta, Chairman, EIRC while welcoming on behalf of EIRC expressed his opinion about GST and preparedness of the members of our profession to take part in the implementation of GST.

Shri Sushil Modiji while addressing the national seminar on GST expressed that "though the state have some genuine concerns, there is absolutely no reason to be nervous over GST implementation as it represents the way forward for dismantling physical barriers among states and integrate the country into one common market".

Shri Shiva Kirti Singh, Hon'ble Justice of the Patna High Court said that questions relating to sale and service had always been an intriguing issue and it was heartening to note the concern of stakeholders in fiscal and tax reforms as ultimately, it were the citizens who paid the taxes. Therefore there should be uniform practices, rules and laws to help those impacted by them. Shri Navin Kumar, Hon'ble Chief Secretary, Govt. of Bihar expressed his satisfaction over the progress for implementation of GST & its need for the development of the Nation.

Shri M.Gopalakrishnan, the then President of the Institute, mentioned about the vital role that CMAs can play in speeding up Bihar's growth in finalizing development plans and finalizing various tariff and taxation rates. The CMAs would ensure that the work is executed at a minimum cost.

Shri Rakesh Singh, the then Vice President of the Institute urged GST be made a "painless" tax. Shri B.M.Sharma, past President, of the Institute highlighted the key issues on GST for consideration of Expert Committee & the role of CMAs for implemen-tation of the same.

Shri Ashok Kumar Mukherjee, Vice Chairman, EIRC offered the vote of thanks on the occasion.

Present in the seminar were past Presidents CMA Amal Das, CMA Shri Kunal Banerjee and Council Members CMA S.C Mohanty, CMA T.C.A. Srinivasa Prasad, CMA Dr Sanjiban Bandopadhyaya, and RCMs of EIRC, CMA Srikanta Kr Sahoo, CMA Chitra Agarwal, CMA Shyamal Kr. Bhattacharya, CMA S.P.Padhi, CMA Shri Bibekananda Mukhopadhyay and CMA Pallab Bhattacharya.

Cuttack-Bhubaneswar Chapter of Cost Accountants (CBCCA)

CBCCA organized for its Members and Final Students a seminar on "Recent Changes in Service Tax Act/Rules-Issues" on 5th August 2012. Present were CMA G.Pradhan, Deputy Director (Cost), Department of Central Excise & Service Tax, Bhubaneswar who was the Chief Guest. He inaugurated the seminar and explained the prospects of CMA Professional in the light of the changing Scenario.

CMA Debasis Ghosh, Director, Deloitte Touch Tohmatsu India (P) Ltd., Kolkata was the resource person and he dwelled upon in detail, the recent Changes in Service Tax Acts/Rules and about introduction of negative and declared Service. CMA N. Swain, Past Chairman of EIRC moderated the entire session and deliberated on the valuation, Reverse Changes etc with lots of examples. The Chairman of the Chapter, CMA Sudhansu Kumar Sahu welcomed and introduced the Guests. CMA M.R.Lenka, Chairman of the Chapter and CMA B. K. Das, Member, PD Committee deliberated the Key Note address and extended the vote of thanks respectively.

The program was attended by more than 150 members, and final students. The session was quite interactive and lively.

NIRC

Northern India Regional Council celebrated the 66th Independence Day on 15th August 2012 at their Lodi Road, New Delhi premises. CMA Vijender Sharma, Chairman, NIRC hoisted the National Flag along with CMA D.C. Bajaj, Chief Advisor Cost, CMA B.B. Goyal, Advisor Cost, MCA, Govt. of India CMA K.L. Jaisingh, past President of the Institute, CMA S.K. Bhatt, CMA Ravi Kr. Sahni, CMA Saurabh Srivastava, RCMs and other members and Staff members of NIRC.

Northern India Regional Council of the Institute organized Mango party and Family get-together on 14th July, 2012 at PSK, Laxmi Nagar, New Delhi. It was a lively evening wherein the members attended the programme in large numbers along with their families and they had a good time socializing amongst themselves at this apt platform.

The get-together was marked with the gracious presence of dignitaries and eminent members and senior executives from industry like CMA B.B. Goyal, Advisor (Cost) Govt. of India, former Presidents of the Institute, CMA J.K. Puri and CMA K.L. Jaisingh, Council members CMA Hari Krishan Goel, CMA Sanjay Gupta, and CMA Subhash Agarwal, Past Chairman NIRC.

The dignitaries and members were given a warm welcome by CMA Vijender Sharma, the then Secretary, NIRC, CMA Arvind Kumar, Treasurer, and RCMs CMA. S.K.Bhatt, CMA Saurabh Srivastava and CMA Ravi Sahni.

Toronto Overseas Centre of Cost Accountants of India (TOCCA)

Indo-Canadian Accounting Group Celebrates Indian Independence Day in Milton

On Sunday, August 19, 2012 the Toronto Overseas Centre of Cost Accountants of India (TOCCA) held a get-together and meeting to celebrate India's Independence Day in Milton, Ontario. TOCCA is comprised of members of the Institute of Cost Accountants of India and aims to act as the primary point of contact for members of ICAI who are migrating to Canada. In particular, TOCCA members assist and mentor foreign trained professional cost accountants to help them settle down in Canada.

The celebration was chaired by TOCCA's Current chairman CMA Asokan Sadasivan, CGA. Others members and guests in attendance included, TOCCA Founder and Director Coordination, an Milton based Cost and Business consultant CMA Davindar Bhatia and CMA Anu Jain as Treasurer ; TOCCA senior member CMA Hrishikesh Sen; Halton Provincial PC Association President, Keith Hesse; and Nunavut Development Corporation CFO, Ramamani Balaji. The speech of CMA M. Gopalakrishnan our immediate past President of the Institute was shared with all members.

The event concluded with buffet lunch at the Milton Bombay Grill Restaurant.

The Concept of Corporate Governance

By Jawaharlal Jasthi

Published by : Asia Law House

Price : Rs. 360.00

This book in essence deals with the Corporate Governance, which has assumed great importance in recent times. It has vividly analyzed the broad areas which cover the Corporate Governance terrain.

This book integrates the details of Board Supervision of the Company. The examples cited here are explicit and are from reallife incidents. It also covers the Corporate Governance terrain in details like the Constitution of the Board, the duties and responsibilities of the Chairman of the Board, the Chief Executive Officer and his power, duties and responsibility. It also explains the requirements of the Independent Director and their qualifications. The most imperative is the governance for the Management by Committees. The subject matter on 'Ethics at the top' has been very elaborately and adroitly dealt with in the book. The Board of Directors is the complete authority for the company and its representation to the outside world. Hence, everybody looks at the top for the guidance, principles and practices bona fide for the organisation in future.

The book also mentions about Governance from the point of view of the Shareholders and their empowerment, rights and responsibilities.

The employees play a comprehensive role in the management of the organisation. The book beautifully deals with the magnitude of the Employees, their disciplines, morale, their benefit, incentives, Bonus and other perspectives. Not only that, how the employees can act as Whistleblowers for the improvement of the Company.

This book has also introduced topics like Company and the Consumer with vibrant examples and importance of precision in the business with a vision and motto. It also highlights the importance of Securities and Exchange Board of India (SEBI) in the Corporate Governance arena. This book is inimitable for this topic and can be recommended for students, professionals, and practitioners alike.

Last but not the least, the book also explains the concept of Corporate Social Responsibility and its significance in modern day-to-day life of the organisation. The provisions of the law are well-supplemented with facts, and coupled with case laws, makes it a knowledge-based reference book.

Ritu Deb, FCS
Company Secretary
KWIC (P) Ltd
Kolkata

Principles and Practice of Direct and Indirect Taxes

By Dr. S. K. Roy

Publisher : ABS Publishing House
93 Mahatma Gandhi Road
Kolkata 700 007, West Bengal

10th Edition, 2012-13

Price : 465.00

Taxation is regarded as the life-blood of the modern states. No wonder that the subject will occupy a great deal of space and importance in the Commerce curriculum of the Indian Universities. The subject is taught at the graduation level as well as at the postgraduation level. Taxation is also a vital subject at the various professional courses—MBA, ICWA, CS and the like. The 10th Edition of the Principles and Practice of Direct and Indirect Taxes by Dr. S. K. Roy is an attempt towards that direction. The relevant provisions of both direct and indirect taxes have been discussed with numerous illustrations selected form the papers of the various universities and professional examinations in the past two decades. Written in light of the Finance Act 2011 and 2012 as they are relevant for the assessment year 2012-13, the book is divided in twenty-five chapters, of which four are devoted to the discussion on Central Sales Tax, West Bengal Value Added Tax, Central Excise Duties and Service Taxes. The remaining chapters are devoted to the discussions on Income-tax and Wealth Tax. The title extensively covers the relevant statutory provisions in lucid language and illustrations are cited commensurate therewith. Introduction of such illustrations and solutions to problems set at different University Examinations, after solving them as per present applicable statute, has immensely contributed to further enrich the value of this publication.

Chiranjib Das
Dy. Director (Studies)
ICAI

CMA Rakesh Singh, President in discussion with Shri Arvind Kumar Singh Gope, Hon'ble Minister, Rural Development, Government of UP along with CMA Sunil Singh Chairman and CMA Vikas Srivastava, Secretary, LCCA at Lucknow on 28.07.12.

CMA Suresh Chandra Mohanty, Vice President addressing to the students on 28.07.12 during his first visit to the Chapter after becoming Vice President. Also seen on the dais (L to R) CMA A.K.Swain, Chairman, Coaching Committee, CMA S.P.Kar, Vice Chairman, CBCCA, CMA Sudhansu Kumar Sahu, Chairman, CBCCA, CMA S.B.Samal, Secretary and CMA B.K.Das, Treasurer, CBCCA.

Seminar on XBRL held at Kolkata on 4.08.12. Seen (L to R) CMA Manas Kumar Thakur, Council Member, Shri Debamalya Banerjee, ASSOCHAM and CMA Dr. Sanjiban Bandyopadhyaya, Council Member.

Joint programme on " Cost Accounting Record Rules and Cost Audit Report Rules" held at New Delhi on 6.08.12 in collaboration with SCOPE. Seen (L to R) are Ms. Neeru Abrol (Director- Finance, SCOPE Executive Board), Dr. U D Choubey (DG, SCOPE), CMA B.B. Goyal (Advisor-Cost), MCA, CMA Rakesh Singh, President and CMA S. C. Mohanty, Vice President.

Seminar on XBRL held at Kolkata on 4.08.12. Seen (L to R) CMA S.S. Sonthalia, Former Chairman, EIRC, CMA Manas Kumar Thakur, Council Member, Shri Debamalya Banerjee of ASSOCHAM, CMA Dr. Sanjiban Bandyopadhyaya, Council Member and CMA N. Sinha Chowdhury, Former Chairman, EIRC.

Glimpses of the 66th Independence Day celebrations held at Headquarters on 15th August 2012

Glimpses of the 66th Independence Day celebrations held at Headquarters on 15th August 2012

Programme on XBRL at Bangalore held on 23.08.12. Seen Shri Suresh R Gunjalli, Shri Vishwnath Bhat, Shri B.Vivek, CMA K. R. Murali Krishna, Chairman, Bangalore Chapter and Shri P. V. Subramanyam.

CMA Rakesh Singh, President addressing the audience at the seminar on 'CARR & CAR' on 3.08.12 at Chennai.

CMA Rakesh Singh, President, speaking at the seminar on 'CARR & CAR' at Chennai on 3.08.12. Seen (L to R) CMA D. Chandru, Director (CEP), CMA B.B. Goyal, Advisor (Cost), GoI, CMA S.C. Mohanty, Vice President and CMA G.V.S. Subrahmanyam, Chairman, SIRC.

Independence Day celebrations at SIRC. CMA G. V. S. Subrahmanyam, Chairman, SIRC, hoists the National Flag as CMA M. Gopalakrishnan, immediate past President looks on.

CMA B.B. Goyal, Advisor (Cost), MCA, addressing the seminar on 'CARR & CAR' on 3.08.12 at Chennai.

CMA Rakesh Singh, President, presents bouquet to Shri Arvind Kumar Singh Gope, Hon'ble Minister of Rural Development, Govt. of Uttar Pradesh at Lucknow on 28.07.12.

CMA Rakesh Singh, President, addressing the audience at the seminar on 'CARR & CAR' at Chennai on 3.08.12. Seen (L to R) CMA D. Chandru, Director (CEP), CMA B.B. Goyal, Advisor (Cost), GoI, CMA S.C. Mohanty, Vice President and CMA G.V.S. Subrahmanyam, Chairman, SIRC.

CMA Rakesh Singh, President, inaugurating the new office, of Pimpri-Chinchwad-Akurdi Chapter on 29.07.12.

CMA Rakesh Singh, President, being felicitated by CMA L. D. Pawar, Chairman, PCCA in traditional 'Puneri Pagdi' while past President CMA B.M. Sharma looks on.

CMA Rakesh Singh, President, being felicitated by representatives of Aurangabad Chapter.

CMA Rakesh Singh, President, being felicitated by CMA Ramesh Joshi, Chairman of Konkan Chapter.

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Our Institute on the Kerala Map – A giant leap forward

CMA Rakesh Singh, President of the Institute, exchanging MOU with Shri C.S. Prakash, CEC Member, Federation of Indian Micro and Small & Medium Enterprises, on 22.08.12 at Thiruvanthapuram in the presence of Shri P K Abdu Rabb, Hon'ble Minister for Education, Government of Kerala, thereby ushering a new era in the Industry linkage of the Institute.

CMA Rakesh Singh, President of the Institute, exchanging MOU with Dr. K M Abraham, IAS, Principal Secretary, Higher Education Department, Government of Kerala on 22.08.12 at Thiruvanthapuram. The Institute has become Knowledge partner in the Banking and Finance for implementing the Additional Skill Acquisition Programme of Governmen of Kerala for equipping the youth of Kerala with employable skills.

CMA Rakesh Singh, President, CMA S.C. Mohanty, Vice President, CMA M. Gopalakrishnan, immediate past President, Shri Amit Apte, Council Member and other RCMs and senior officials of the Institute with Shri P K Abdu Rabb, Hon'ble Minister for Education, Government of Kerala.

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