Though forensic accounting is at a nascent stage in India, it is currently in great demand because of the emerging demand for transparency and accountability.
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  on 29-30 October
- Study Tour to The University of Leicester
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Jessica Fries, Director, IIRC Board and Executive Chair, AAS, UK • Helen Brand CBE, Chief Executive, Association of Chartered Certified Accountants (ACCA)
Dr. A S Durga Praasad, President, The Institute of Cost Accountants of India • Maxine Mawhinney, BBC TV News Anchor, UK • Justin Keeble, Managing Director, Accenture Strategy, Accenture Sustainability Services, UK • Dr. Santrupt Misra, CEO, Carbon Black Business and Director, Group HR, Aditya Birla Group • Anthony Harbinson, FCCA, Chairman, Consultative Committee of Accountancy Bodies (CCAB) • Carina Wessels, President, Corporate Secretaries International Association • Prof Andrew P Kakabadse, Professor of Governance and Leadership, Henley Business School, University of Reading • David Styles, Director of Corporate Governance, The Financial Reporting Council (FRC), UK • Rajeev Jain, CEO, GVK Mumbai International Airport, India • Moyukh Bhaduri, CMD, Hindustan Steelworks Constructions Ltd, India

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The Institute of Cost Accountants of India

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

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

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

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

MISSION STATEMENT

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

VISION STATEMENT

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

IDEALS THE INSTITUTE STANDS FOR

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

Behind every successful business decision, there is always a CMA
Inside

COVER STORY

FORENSIC ACCOUNTING IN THE CYBER WORLD: A NEW CHALLENGE FOR ACCOUNTANTS

18

A theoretical construct of forensic accounting and auditing

22

White Collar Crime and its punishment policy

40

Why banks should go for Forensic Accounting – Needs and applicability

46

A multidimensional approach to investigating frauds and scams: a study in the global and Indian context

29

DISCLAIMER

The views expressed by the authors are personal and do not necessarily represent the views of the Institute and therefore should not be attributed to it.
Forensic accounting eliminates epidemic ills in business: A conceptual framework

Viewing through the forensic lens

Fiscal policy: Advice from the Arthashastra and other tax happenings

Finance (No.2) Act 2014

Tax Titbits

Taxation issues in Telecom Sector

Transparency in Indian banks – considering information on bank websites

Activity based Management – Glimpses of its practical applications

Foreign direct investment in the telecom sector

International Transfer Pricing – Issues and challenges faced by MNCs and regulators

The Management Accountant technical data

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Advertisement rates per insertion

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<tbody>
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The Institute reserves the right to refuse any matter of advertisement detrimental to the interests of the Institute. The decision of the Editor in this regard will be final. For any query, mail to journ.advt@icmai.in.
Greetings!

Forensic accounting has risen to prominence because of increased financial frauds popularly known as white collar crimes. Forensic accounting can be described as a specialized field of accountancy which investigates fraud and analyse financial information to be used in legal proceedings. Forensic accounting uses accounting, auditing, and investigative skills to conduct investigations into theft and fraud. It encompasses both Litigation Support and Investigative Accounting.

Forensic audit can be defined as an examination of evidence regarding an assertion to determine its correspondence to established criteria carried out in a manner suitable to the court.

**Objectives of Forensic Accounting and Auditing**

- To use the forensic accountant’s conclusions to facilitate a settlement, claim, or jury award by reducing the financial component as an area of continuing debate
- To avoid fraud and theft
- To restore the downgraded public confidence
- To formulate and establish a comprehensive corporate governance policy
- To create a positive work environment

A forensic accountant can ensure the integrity and transparency of financial statements by actively investigating for fraud, identifying areas of risk and associated fraud symptoms and a good fraud prevention program can help to create a positive working environment where employees do not indulge themselves to abuse their responsibilities. So, by helping companies to prevent and detect fraud the forensic accountants can help to establish a comprehensive corporate governance policy.

Forensic accountants can support the propagation of the required information about governance and ethics policies to interested parties within and outside the organization. In this way they can help to maintain a good image of their respective companies to its stakeholders and also build up effective communication process and transparency.

The fraud prevention strategy outlines a high level plan on how the organization will go about implementing its fraud prevention policy. An effective fraud risk management approach encompasses controls that have three objectives:

- Prevent
- Detect
- Respond

Fraud risk management strategy can follow the following steps:

- Identify risk areas.
- Understand and assess the scale of risk.
- Develop a risk response strategy.
- Implement the strategy and allocate responsibilities.
- Implement and monitor the suggested controls.
- Review and refine the process and do it again.

Fraud risk management is not a one-time exercise but a continuous process. As businesses change and grow, so do their fraud risks.

This issue presents a good number of articles on the cover story theme ‘Forensic Accounting and Audit’ by distinguished experts and authors. We look forward to constructive feedback from our readers on the articles and overall development of the journal under this section. Please send your mails at editor@icmai.in. We thank all the contributors to this important issue and hope our readers enjoy the articles.
LETTERS TO THE EDITOR

The Journal is going from Good, Very Good to Excellent. This makes me proud of being a member of the Institute.

Looking forward to improvements to the Journal and the perception of corporates about CMAs.

CMA V Subramanian

On the online link of the Journal: Wonderful! Very good idea! It will save paper and valuable natural resources.
Also, members can now download and keep it in a separate folder and read when time permits.

CMA R Parthasarathy

I request you to publish a special issue on the incentive schemes of state governments and the central government for industries, their impact on the Indian economy and the specific role that CMAs can play in them.

CMA Santanu Chakraborty

My warm appreciation for the nice graphics that accompanied my articles in the last two issues of our journal. They enhanced the tone of the articles and were eye-catching, specially the photograph of the statue of Lady Godiva which was an example of editorial thoughtfulness. Kudos for the good work.

Dr Ravindran Pranatharthy

The Institute of Cost Accountants of India
(Statutory Body under an Act of Parliament)
www.icmai.in

Call for Research Papers/Articles for Research Bulletin Vol. XL (ISSN 2230 9241)

We invite you to contribute research paper/article for “Research Bulletin”, a peer-reviewed Bi-Annual Journal of The Institute of Cost Accountants of India. The aim of this bulletin is to share innovative achievements and practical experiences from diverse domains of management, from researchers, practitioners, academicians and professionals. This bulletin is dedicated to publish high quality research papers providing meaningful insights into the management content both in Indian as well as global context.

Guidelines to submit full Paper
• Soft Copy of the full paper should be submitted in double space, 12 fonts, Times New Roman, keeping a margin of 1 inch in four sides, MS Word 2003 (.doc) format.
• Each paper should be around 15 typed pages and preferably within 5000 words including all.
• An abstract of not more than 150 words should be attached.
• The cover page should contain the title of the paper, author’s name, designation, official address, contact phone numbers, e-mail address.

Papers must be received within 31st October, 2014 in the following email id: research.bulletin@icmai.in
INSTITUTE PREPARED TO PLAY A ROLE IN INDIAN ECONOMY BY PROVIDING VITAL INPUTS

My Dear Professional Colleagues,

September is starting with some good tidings that the Economy has started turning around and has proceeded with some good initiatives from the Government for kindling economic growth. The optimism to achieve growth beyond 5.7% has been revived. Some of the key initiatives such as removal of restrictions on FDI in Railways and Defence, thrust on manufacturing and Infrastructure investments and creation of special mechanism to resolve tax disputes have definitely helped regain the investor confidence. There is also a momentum for Goods & Services Tax which will be the next big thing that will bring harmonization in the tax structure of the country.

There needs to be a balanced growth of all the three important sectors of Indian Economy i.e. Agriculture, Manufacturing and Services. The Government is also concentrating on Education & Health, Agriculture & Food Processing and Infrastructure sectors in order to boost the economy and investments. From the Institute I am glad that we are well prepared to play a due role in all these sectors by providing vital inputs to the Government in their efforts.

Companies (Cost Records and Audit) Rules 2014

The Expert Committee of MCA, constituted to examine the issues relating to Cost Rules, desired that the Institute submit a representation, highlighting the grievances of the Cost Accountants on the Companies (Cost Records and Audit) Rules 2014. The Institute has submitted the following documents in this regard for the perusal of the Expert Committee on August 21, 2014:

a. Genesis for regulatory mechanism on cost records and cost audit covering the review made by the earlier Expert Group constituted by MCA in 2008 and the framework in place since 1965 till date
b. Legal provisions relating to cost records and cost audit, including suggestions made by various Parliamentary Committees.
d. International CMA Practices.
e. Value Additions through Cost Audit

Our suggestions with justifications for coverage, and other terms relating to prescribed class of companies / industries / sectors, the threshold limits along with appropriate changes / modifications to be made thereunder will be submitted to the Expert Committee shortly. We also represented for postponement of Companies (Cost Records and Audit) Rules, 2014 to be effective from 1st April 2015 pending recommendations of the Expert Committee appointed by Ministry of Corporate Affairs and these rules in its present form are non-implementable due to various issues pointed out in its representation to the Expert Committee and MCA.

Quality Review Board

The Quality Review Board of the Institute, which has been doing a yeoman service in guiding the practicing members in providing quality professional service, has given its recommendations for further improvement in the quality of the services rendered by the members of the Institute including those in service.
These include:
- To develop Leadership and Communication skills of Final passed students.
- To organize necessary training for the employees of the Institute to improve the image of the Institute.
- CEP hours and Training requirements for Certificate of Practice (COP) holders to be revised with 50% catered to professionally related subjects.

Necessary steps to implement the recommendations have been initiated.

Meeting with Union Minister for Micro Small and Medium Enterprises
I along with CMA Manas Kumar Thakur, Council Member had the opportunity to meet the Shri Kalraj Mishra, Hon’ble Union Minister for Micro Small and Medium Enterprises on 8th August 2014 at New Delhi. The meeting was very fruitful. On behalf of the Institute we offered the Ministry some specific services to be rendered by the Institute and its members. Some of them are Creating a MSME help desk at each of the Chapters / CMA Support centres for facilitating MSMEs to get advice on various aspects of their operations; to carry out research studies to assess the efficiency of various units / activities; to organize training programs for MSMEs specifically focusing on the need and mechanism for effective cost management for survival and becoming competitive. This was followed up with a meeting with Dr. Sunita Chhibba, Chief Economic Advisor to MSME Ministry. We were advised to give a detailed proposal and a draft MOU for the consideration of the Ministry.

Meeting with Secretary, Ministry of Textiles
I along with CMA M. Gopalakrishnan, Past President and Council Member met with Shri S.K Panda, IAS, Secretary, Ministry of Textiles on 26th August 2014 and discussed the role CMAs can play in implementing the various schemes for promoting cost competitiveness and thereby sustaining the growth of Textile Sector, as indicated in the Vision, Strategy and Action Plan by the Ministry. The Ministry of Textiles has shown willingness to involve our Institute and CMA profession to provide a mechanism to the Ministry for monitoring the flagship Textile Upgradation Scheme, being implemented by the Ministry. We have also assured the Ministry to develop a mechanism of providing additional skill based training on Cost Accounting to the trainees of Sardar Vallabhai Patel Institute of Management and similar technical and management Institutions recognized under the Ministry of Textiles.

Advocacy - Promoting awareness
In the meeting of National Advisory Board, the Chairman emphasized on the relevance of Cost and Management Accounting profession and the efforts required for making the profession more relevant and enhancing visibility. This calls for creating awareness at the highest level of decision making about the knowledge and expertise possessed by the CMAs and also across the stakeholder’s spectrum.

In order to promote Advocacy of the profession through promoting awareness amongst Key stakeholders and audiences, and focus on the areas:
- Highlighting the critical differentiating aspects of a CMA; the DNA of a CMA
- What steps are needed for career progression as leader; identifying career and educational pathways for gaining experience and knowledge
- Using CMA role models, and identifying what stakeholders need and expect of CMAs
- Greater transparency and understanding of organizational performance, proactive engagement with stakeholders on business drivers of performance.

As a part of this initiative, during the last one month, I met Industrialists and some of our Members who are holding senior positions, from different regions in order to connect with the Industry and also elicit their views with respect to the areas listed above and their expectations.

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

ICWAI MARF Programs
The ICWAI MARF has organized the programs on ‘Advance Tax, TDS and Tax Planning’ and ‘Risk Based Internal Audit for Effective Management Control’ during 05-08 August, 2014 at Indore, which were attended by officers from different organizations. The program on ‘Overview of Companies Act, 2013 & Finance Act, 2014’ has been organized for Container Corporation of India Limited at CMA Bhawan, New Delhi during 12-13 August, 2014 which was attended by 25 Senior and Middle level officers.

Advanced Studies Directorate
To equip the members with requisite skills necessary for both Systems audit and Internal Audit, the Directorate of Advanced Studies commenced The Diploma in Internal Audit course and IS Audit and Control. The 2nd batch of Diploma in IS Audit and Control will commence from October 2014 as the date for admission is extended to 30th September 2014. The Directorate has till now conducted 15 webinars for Diploma in IS Audit & Control and 9 webinars for Diploma in Business Valuation. 6 webinars were also held for Diploma in Internal Audit. The Directorate has notified the Diploma in Management Accountancy Examination to be conducted in December 2014. Interested members are requested to visit the Institutes website for details.

CAT & ASAP
Total review of ASAP, Kerala was done by CMA TCA Srinivasa Prasad, Chairman, CAT Committee and CMA M. Gopalakrishnan, Member, CAT Committee, with the officials of Government of Kerala. The Institute is gearing up for the successful commencement of the 3rd batch of students numbering around 4,000. In Rajasthan, the third batch of students numbering around 500 from various colleges has already joined the course as per the MoU with the Government of Rajasthan.

www.icmai.in

SEPTEMBER 2014 | THE MANAGEMENT ACCOUNTANT 9
**CPD Activities**

During the month webinar was organized on 'Stock Audit of Banks'. The session was well received by the large number of CMAs. The Institute organized a program in an academic collaboration with SCOPE on ‘Service Tax-Compliances’ at Newyork. There was overwhelming response from the Public Sector Enterprises and sessions were very much appreciated by the participants. I am happy to inform that during the month our Regional Councils and Chapters actively organized many programs, seminars and discussions for the members on the topics of professional relevance such as on MCA E Forms, Cost Audit under the Companies Act, 2013, Limited Liability Partnership, Understanding MVAT, Corporate Governance & Independent Directors, Total Quality Management, Enterprise Risk Management, Excise, Service Tax and Cost Audit, Issues in Capital Gains, Management Accounting-A Strategic Emphasis, IFRS and its applicability, Mergers & Acquisitions, Advance Tax, TDS and Tax Planning, Negative List of Services, Workshop on Karnataka Value Added Tax (K-VAT), Union Budget 2014-2015, Scope of CMAs in Banking and Financial Institutions, and so on.

**Exams Directorate**

The June 2014 Intermediate and Final examinations results were declared on 23rd August 2014. I congratulate the students who have passed the examinations and wish them a very bright and successful future. I urge upon those students who could not pass the exams this time, to gear up for the next term examinations.

**International Affairs Department**

The next SAFA Events are scheduled to be held at Dhaka during 9-10th September 2014. Representatives from the Institute will be attending the meetings. The IFAC-PAIB committee is meeting on September 22-23, 2014 at Newyork, USA.

**IT Department**

I am happy to inform that on the auspicious occasion of Independence Day, the following applications developed by the IT Department, were launched:
- **CMA Connect Mobile App:** This will help members and students to receive updates from the Institute on their Android Mobile Devices. iOS and Windows version of the App would be launched soon.
- **Student Portal:** This is one-stop-shop portal catering to all the requirements of the students ranging from access to notification, Online Services, Administration, Academics, Resources, Training, Examination and Placements.
- **President Portal:** This will help members and students to know more about the schedule of the President, Events attended by him and will also enable them to reach out to him with ideas and suggestions. Through the President’s Desk on this portal, President would also communicate to the stakeholders.
- **Dashboard for Council Members:** Online Dashboard for the council members to provide quick access to the facts and updates of the Institute.

**Membership Department**

In my earlier communiqué, I had mentioned about the initiative to launch a vigorous membership drive to increase the number of Members. I call upon all final passed students having requisite experience to apply for Associate membership of the Institute. In regard to payment of membership fee for FY 2014-15 which became due on 1st April 2014, it is observed that some of our esteemed members have not yet made payment of their membership fees. I urge upon all such members to make their membership fee payment before 30th September 2014 to continue to avail the benefits of membership.

**Professional Development Directorate**

The Institute has released two guidance notes on Internal Audit of Pharmaceutical Industry and Stock Brokers & Depository Participants as reference technical guides.

**Research & Journal Directorate**

A meeting was held at Tezpur University, Assam (a Central University) on 18th August, 2014 on the issues of Recognition of the qualification of the members of the Institute for pursuing Ph.D program and collaborative research activities. Professor Mihir Kanti Chaudhuri, Vice Chancellor, Tezpur University, Professor Subhrangshu Sekhar Sarkar, Dean, School of Management Sciences, Tezpur University, Dr. Biren Das, Registrar, Tezpur University, CMA Manas Kumar Thakur, Central Council Member of the Institute, CMA Bibekananda Mukhopadhyay, Secretary, EIRC of the Institute were among the dignitaries present in the meeting. The meeting was highly successful. An MoU is proposed to be signed shortly in this regard.

I wish prosperity and happiness to members, students and their family on the occasion of Onam and Navaratri.

With warm regards,

(CMA Dr A S Durga Prasad)
2nd September 2014
1. CMA Dr. A S Durga Prasad, President of the Institute being felicitated by Mr. D S Rawat, Secretary General, Assocham. Also seen in the photo are CMA Rakesh Singh, former President, Mr Babulal Jain, Sr. Managing Committee member and Mr U K Joshi, Director, Assocham

2. CMA Dr. A. S. Durga Prasad, President of the Institute hoisting the Indian flag on 68th Independence Day of India at the Headquarters of the Institute in Kolkata

3. The President, CMA Dr. A.S. Durga Prasad, with Central Council Members and Regional Council Members of the Institute in a meeting at SIRC

4. The President, CMA Dr. A.S. Durga Prasad, with Central Council Members and Regional Council Members of the Institute at SIRC

5. A visit to Tezpur University on August 18, 2014 on the issues of recognition of the members of the Institute for pursuing Ph.D programme and Collaborative Research Activities. In the photo seen are Prof. Mihir Kanti Chaudhuri, Vice Chancellor, Tezpur University, Prof. Subhrangshu Sekhar Sarkar, Dean, School of Management Sciences, Tezpur University, CMA Bibekananda Mukhopadhyay, Secretary, EIRC, and CMA Manas Kumar Thakur, Chairman, Research Innovation and Journal Committee of the Institute.
6. CMA Dr. A.S. Durgaprasad, President and CMA Dr. S.C Mohanty, Immediate Past President of the Institute at the inauguration of E Library at Bhubaneswar Chapter of the Institute on August 23, 2014. The E Library was inaugurated by Shri Pradip Kumar Amat, Hon'ble Cabinet Minister of Finance & Public Enterprises, Govt. of Odisha.


Seen L-R: Shri Partha Mukherjee, Addl SP, CBI, Anti Corruption Branch, Kolkata, CMA Mrityunjay Acharjee, Associate Vice President, Balmer Lawrie & Co. Ltd, Shri Sukamal Basu, former CMD, Bank of Maharashtra, Janwab Khalid Aziz Anwar, Sr. Joint Commissioner, Commercial Taxes, Govt of West Bengal, CMA Manas Kumar Thakur, Chairman, Research, Innovation and Journal Committee, Shri Debashish Sarkar, General Manager & Chief Vigilance Officer, Allahabad Bank, Prof. Sanjay Banerji, Professor of Finance & Head of the Group, Nottingham University, U.K. were the eminent dignitaries on the dais.

8. The Chairman and other members of Quality Review Board (QRB) welcoming CMA N K Bhola, Regional Director (East & North East), MCA in the 18th Meeting held in Delhi office on August 14, 2014.

Seen L-R: CMA V Kalyanaraman & CMA Kunal Banerjee, Members, CMA R S Sharma, Chairman, CMA A S Bagchi, Secretary of QRB, CMA N K Bhola, Regional Director (East & North East), special invitee and Shri Pramod Kumar, Member of QRB.

9. 18th Meeting of Quality Review Board (QRB) in progress in Delhi office on August 14, 2014.

Seen from left: CMA V Kalyanaraman & CMA Kunal Banerjee, Members, CMA R S Sharma, Chairman, CMA A S Bagchi, Secretary of QRB, Shri Pramod Kumar, Member of QRB and CMA N K Bhola, Regional Director (East & North East), MCA, special invitee.
SMEs Excellence Awards 2014 is a tribute to the efforts and success achieved by the micro, small and medium enterprises. ASSOCHAM and ICAI-CMA are committed to promote and encourage the SMEs. The contribution of SMEs especially in Indian economy is exceptionally successful and needs to be recognized.

**Objective**
- To promote SMEs and their efforts towards sustainable growth
- To recognize and appreciate the achievements of SMEs
- To encourage the innovations
- To appreciate and encourage the fair business practices
- To promote and encourage technology up-gradation, branding and accounting

**Category**
- Innovation
- Green Business
- CSR Activities
- Fair Business Practices
- SME of the Year
- Most Promising Brand
- Women Entrepreneur
- Cost competitiveness

**Eligibility Criteria**
- Any unit which comes under the category of SME as defined by Government of India
- Organization registered in India ‘for profit’ or ‘not for profit’ under any relevant Act

**Evaluation Methodology**
- **First Round**: All entries would be scrutinized and shortlisted on the basis of questionnaire based response by independent observers.
- **Second Round**: Shortlisted entries would be verified for the authenticity followed by comprehensive report to the Jury.
- **Final Round**: Final Jury meeting to discuss and decide the awards.

**For Nomination & Partnership Opportunities, Please Contact**
Sumitra Nandan Srivastava: (M) 08800123463
E-mail: sumitra.srivastava@assoccham.com
Hitika Dahya: (M) 09711116333
E-mail: hitika.dahya@assoccham.com
U. K. Joshi, Nodal Officer,
National Council for SMEs, ASSOCHAM
Phone: 011-46550583, Fax: 011-46550567,
E-mail: u.k.joshi@assoccham.com

Application for Participation and Sponsorship opportunities are available at
www.assoccham.org/events

ASSOCHAM SMEs Helpline
011-46550555

Duly filled in Applications should reach on or before 15th October, 2014

*The Ministry of Micro, Small and Medium Enterprises, Government of India has associated with ASSOCHAM for MSME Helpline.

National Council for SMEs, The Associated Chambers of Commerce and Industry of India
ASSOCHAM House, 5, Sardar Patel Marg, Chanakyapuri, New Delhi - 110021
Tel: +91-11-46550555. Fax: +91-11-46550567, E-mail: assocham@nic.in. Website: www.assoccham.org
PAPERS INVITED

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

<table>
<thead>
<tr>
<th>Issue months</th>
<th>Themes</th>
<th>Subtopics</th>
</tr>
</thead>
</table>
| October 2014 | Urban Development and Economic growth       | • Uniqueness of Municipal Accounting  
• Urbanism & Consumption Amenities  
• Rural-Urban continuum & environmental issues  
• Financing urban infrastructure & town planning  
• Performance Evaluation parameters of Urban Projects  
• Project monitoring for sustainable growth  
• Comparative Analysis of Urban Projects – India & Abroad |
| November 2014| Agriculture and the Indian Economy          | • Pricing of agricultural products and its marketing  
• Cost of input, storage, distribution, R&D and its analysis  
• Drop out problem of agricultural land and labour  
• Food security  
• Application of cost management in agriculture  
• Accounting of agricultural activities  
• Agriculture and sustainable economic growth |
| December 2014| Strengthening Human Resource – Building the Nation | • Human Resource Accounting  
• HRIS for strategic decision making  
• Ethical HR and Governance for sustainable growth  
• Cross-cultural issues in HRM  
• Industrial relations and challenges in the new era  
• Compensation and benefits for effective talent management  
• Performance management for strategic goal setting  
• Case Studies |
| January 2015 | NPA Management and Corporate Debt Restructuring (CDR) | • Cost of Risk & Risk Based Internal Audit  
• SARFAESI Act & Vigilance  
• Risk mitigation techniques and models  
• Basel norms and stressed assets  
• CDR / ARC / DRTs and redressal structure  
• Cost implication of NPAs  
• Role of Independent Evaluation Committee (IEC)  
• Credit appraisal & its Audit |

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

Customs
- Increase in customs duty on raw as well as refined/white sugar from 15% to 25% vide notification no. 26/2014-Cus, dt 21-08-2014.
- As per Notification No. 02/2014 – Cus. (SG), dt 13-08-14, safeguard duty has been levied on imports of Seamless Pipes and Tubes into India for a period of two and a half years.

Anti-dumping duty
- Levy of definitive anti-dumping duty on imports of sodium nitrite, originating in or exported from the European Union, for a further period of five years vide notification no. 37/2014-Cus (ADD), dt. 08-08-2014.
- Levy of definitive anti-dumping duty on imports of Ceftriaxone Sodium Sterile originating in or exported from the People’s Republic of China, for a period of five years vide notification no. 39/2014-Cus (ADD), dt. 14-08-2014.

Income Tax
- Agreement for Avoidance of double taxation and prevention of fiscal evasion with foreign countries – Malta
In exercise of the powers conferred by section 90 of the Income-tax Act, 1961 (43 of 1961), the Central Government hereby directs that all the provisions of said Agreement and the Protocol between the Government of the Republic of India and the Government of Malta for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income with effect from the 1st day of April, 2015 vide notification no. 34/2014 – dated 5-8-2014 – Income Tax.

Service Tax

Here specified organisation means
(a) Kumaon Mandal Vikas Nigam Limited, a Government of Uttarakhand Undertaking; or
(b) ‘Committee’ or ‘State Committee’ as defined in section 2 of the Haj Committee Act, 2002 (35 of 2002).

Income Tax
- Levy of definitive anti-dumping duty on imports of Ceftriaxone Sodium Sterile originating in or exported from the People’s Republic of China, for a period of five years vide notification no. 39/2014-Cus (ADD), dt. 14-08-2014.

DGFT
- Export Policy of Onions - Export of onion for the item description at Serial Number 51 & 52 of Chapter 7 of Schedule 2 of ITC (HS) Classification of Export & Import Items shall be permitted subject to a Minimum Export Price (MEP) of US$ 300 per Metric Ton F.O.B vide Notification No. 91 (RE – 2013)/2009-2014 dated: 21 August, 2014.

- Export benefits / incentives against exports to Iran - Export proceeds against exports to Iran realized in Indian rupees are permitted to avail exports benefits/ incentives under the Foreign Trade Policy, 2009-14, at par with export proceeds realized in freely convertible currency vide Notification No. 89 (RE-2013)/2009-2014 dated: 6th August, 2014.

SEBI
- Expansion of framework of Offer for Sale (OFS) of Shares through stock exchange mechanism – Comprehensive guidelines on sale of shares through Offer for Sale mechanism were issued vide circular no CIR/MRD/DP/18/2012 dated July 18, 2012. These guidelines have been modified vide circulars dated CIR/MRD/DP/04/2013 dated January 25, 2013 and CIR/MRD/DP/17/2013 dated May 30, 2013. The OFS mechanism has been successfully used to divest promoter stake, market feedback indicated that there is a need to take measures to encourage retail participation in OFS, enable other large shareholders to use the OFS mechanism and expand the universe of companies to use this framework vide Circular no - CIR/MRD/DP/ 24 /2014 dated: August 08, 2014.

- Monitoring of Compliance by Stock Exchanges - As per Clause 5.2 of the Circular dated November 18, 2013 and the provisions of the revised Clause 49 which are scheduled to take effect from October 01, 2014, all recognized stock exchanges are advised to step up and equip their monitoring framework to identify and monitor such practices and to ensure that requirements laid down by Principles of Corporate Governance in the revised Clause 49 of the Listing Agreement vide Circular No. CIR/CFD/ DIL/4/2014 dated: August 01, 2014.
Banking

• Prudential Norms on Income Recognition, Asset Classification and Provisioning Pertaining to Advances - Projects under Implementation

As per Notification no: RBI/2014-15/182 [DBOD.No.BP.BC.33/21.04.048/2014-15] dated: August 14, 2014, banks has been allowed to fund cost overruns, which may arise on account of extension of date of commencement of commercial operations (DCCO) within the period of two years and one year from the original DCCO, without treating the loans as ‘restructured asset’ subject to the following conditions:

i) Banks may fund additional ‘Interest During Construction’, which may arise on account of delay in completion of a project;

ii) Other cost overruns (excluding Interest During Construction) up to a maximum of 10% of the original project cost;

iii) The Debt Equity Ratio as agreed at the time of initial financial closure should remain unchanged subsequent to funding cost overruns or improve in favour of the lenders and the revised Debt Service Coverage Ratio should be acceptable to the lenders;

iv) Disbursement of funds for cost overruns should start only after the Sponsors/Promoters bring in their share of funding of the cost overruns.

• Appointment of Non-Deposit Accepting NBFCs with asset size of Rs. 100 Crore and above as sub-agents under Money Transfer Service Schemes (MTSS)

In order to broaden the network of sub-agents under the Money Transfer Service Schemes (MTSS), it has been decided to permit Non-Deposit Accepting NBFCs with asset size of Rs. 100 crore and above to act as sub-agents under MTSS subject to the following conditions:

• There is no co-mingling of the Indian agent’s funds with that of the NBFC’s funds.

• The Indian agent should maintain with a designated bank, a security deposit in favour of the NBFC sub-agent. The amount of the security deposit to be maintained may be mutually decided between the Agent and the sub-agent. It should be ensured that the payouts of NBFC sub-agents pending reimbursement by the agents should not, at any point of time, be higher than the security deposits.

• No NBFC, acting as sub-agent, should appoint any other entity as its sub-agent.


• Interest Rate Futures – NBFCs

All non-deposit taking NBFCs with asset size of Rs 1000 crore and above may also participate in the interest rate futures market permitted on recognized stock exchanges as trading members, subject to RBI/ SEBI guidelines vide notification no RBI/2014-15/173 [DNBS.CC.PD.No.406/03.10.01/2014-15] dated: August 12, 2014.

• Modification of Guidelines on Mortgage Guarantee Companies (MGCs)

In view the long – term beneficial impact of development of the Mortgage Guarantee industry, it has been decided to make certain modifications to the existing Guidelines on Mortgage Guarantee Companies vide notification no. RBI/2014-15/170 [DNBS (PD) CC. No.20/MGC/03.011.001/2014-15] dated: August 08, 2014. For more details please visit: http://www.rbi.org.in> Notifications.

• RRBs - Monetary Policy Statement 2014-15 – SLR Holdings under Held to Maturity Category

RRBs are permitted to exceed the limit of 25 per cent of total investments under HTM category with effect from August 9, 2014, provided the excess comprises only SLR securities, and the total SLR securities held in the HTM category is not more than 24.00 per cent.


• STCBs/CCBs - Section 24 of the Banking Regulation Act, 1949 (AACS) – Maintenance of Statutory Liquidity Ratio (SLR)

As announced in the Third Bi-monthly Monetary Policy statement 2014-15 by Reserve Bank of India on August 5, 2014, it has been decided to reduce the Statutory Liquidity Ratio (SLR) of State/Central Cooperative Banks from 22.5 per cent of their Net Demand and Time Liabilities (NDTL) to 22.0 per cent with effect from the fortnight beginning August 9, 2014 vide notification no: RBI/2014-15/166 [RPCD.RCB. BC.No.22/07.51.020/2014-15] dated: August 06, 2014.

(For further details on these issues, please visit the Institute’s website: www.icmai.in for the complete CMA E-Bulletin, September 2014, Vol 2, No. 9, in the ‘Research and Publications’ section.)
## THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
### (STATUTORY BODY UNDER AN ACT OF PARLIAMENT)

### EXAMINATION TIME TABLE & PROGRAMME – DECEMBER 2014

<table>
<thead>
<tr>
<th>Day, Date &amp; Time</th>
<th>Programme for Syllabus 2008</th>
<th>Programme for Syllabus 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wednesday, 10th December, 2014</td>
<td>Intermediate – 2008 9.30 A.M. to 12.30 P.M.</td>
<td>Final – 2008 2.00 P.M. to 5.00 P.M.</td>
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<tr>
<td>Thursday, 11th December, 2014</td>
<td>Financial Accounting &amp; Corporate Laws</td>
<td>Financial Accounting</td>
</tr>
<tr>
<td>Friday, 12th December, 2014</td>
<td>Management Accounting – Strategic Management</td>
<td>Direct Taxation</td>
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<tr>
<td>Saturday, 13th December, 2014</td>
<td>Applied Direct Taxation</td>
<td>Cost Accounting &amp; Financial Management</td>
</tr>
<tr>
<td>Sunday, 14th December, 2014</td>
<td>Cost &amp; Management Accounting</td>
<td>Tax Management &amp; Practice</td>
</tr>
<tr>
<td>Monday, 15th December, 2014</td>
<td>Advanced Financial Accounting &amp; Reporting</td>
<td>Cost &amp; Management Accounting</td>
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<td>Tuesday, 16th December, 2014</td>
<td>Cost Audit &amp; Operational Audit</td>
<td>Indirect Taxation</td>
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<tr>
<td>Wednesday, 17th December, 2014</td>
<td>Business Valuation Management</td>
<td>Company Accounts and Audit</td>
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### EXAMINATION FEES

<table>
<thead>
<tr>
<th>Group(s)</th>
<th>Final Examination</th>
<th>Intermediate Examination</th>
</tr>
</thead>
<tbody>
<tr>
<td>One Group (Inland Centres) (Overseas Centres)</td>
<td>₹1400/- US $ 100</td>
<td>₹1200/- US $ 90</td>
</tr>
<tr>
<td>Two Groups (Inland Centres) (Overseas Centres)</td>
<td>₹2800/- US $ 200</td>
<td>₹2400/- US $ 180</td>
</tr>
</tbody>
</table>

1. (a) Students can login to the website www.icmai.in and apply online through payment gateway by using Credit/Debit card.
2. (b) Application Forms for 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.
3. (c) Students can also download the Examination Form free of cost from ICAI Website at www.icmai.in.
4. (d) Students can also pay their requisite fee through payee module of IDBI.
5. (e) Examination fees can also be paid through Bank Demand Draft drawn in favour of “The Institute of Cost Accountants of India” and payable at Kolkata.
6. (f) Last date for receipt of Examination Application Forms without late fees is 30th September, 2014 and with late fees of ₹300/- is 10th October, 2014. In case of online Examination Application with payment gateway by using Credit/Debit Card, the late fees of ₹300/- will be waived if applied within 10th October, 2014.
7. (g) Students may submit their Examination Application Forms (Hard copy) along with the fees at ICAI, CMA Bhavan, 12, Sudder Street, Kolkata 700016 or Regional Offices or Chapter Offices. Any query in this regard may be addressed to the Examination Directorates at 12, Sudder Street, Kolkata – 700016.

A. Das
Director (Examination)
FORENSIC ACCOUNTING IN THE CYBER WORLD: A NEW CHALLENGE FOR ACCOUNTANTS

In many corporate environments, data exists not only on one employee’s personal computer (PC), but on a server (or multiple servers). Advances in cloud technology, with data stored at offsite locations across town or across the world, further complicate forensic efforts.

FORENSIC accounting, forensic accountancy or financial forensics is the specialty practice area of accounting that describes engagements that result from actual or anticipated disputes or litigation. "Forensic" means "suitable for use in a court of law", and it is to that standard and potential outcome that forensic accountants generally have to work. Forensic accountants, also referred to as forensic auditors or investigative auditors, often have to give expert evidence at the eventual trial.

The need for forensic accounting
Accounting is an age old system with conventional idea of a numeric transaction purpose wise and chronologically. Conventional accounting could not bring into light many fi-
CFOs, then, must strive to be trusted stewards of the organization, ensuring that the financial irregularities appropriation and expropriation detrimental to stakeholders.

With complex trade pattern with international angle it was seen to be inadequate to the expectation of corporate culture. Governance was held to be central theme but orthodox transactional audit and accounting system did not cope with the expectations.

Corporate strategies could not be constructed with historical data. Corporate irregularities in India starting with Mundra case made people concern about the efficacy of historical data for arresting fraud and irregularities and adhere to increased compliance requirements and transparency need. To cope with the dynamic situation continuous revision of accounting standards throughout the globe became usual practice in the accountancy profession.

**Evolution**
IT came in the picture for combating the situation arising from Enron case to Rajat Gupta case and Satyam Case. Companies Act 2013 preceded by American law and British bribery act demanded for a different approach for preventing economic
fraud and preserving national wealth.

For proper risk management reputational risk was to be managed which involves effective E management business process reengineering corporate governance and proper IT platform. The occasion of fraud and irregularities and lapses in compliance culture necessitated proper investigation thereof and a strong preventive environment.

Thus forensic accounting was called for to detect planning of the fraud, execution of the fraud, consequences of the fraud and book the culprits without much time lag.

**Fraud**

Forensic accounting approach differs from auditing, investigation, enquiry etc. One of the attributes of forensic accounting is the retrieval of concealed data most essential for investigation in the economic offences. Recent investigation in the sub-judice case of Sarada chit fund is an example.

Economic offences are essentially conspiracies seldom committed by one person. Trace of evidences and the interpretation of the evidence from IT systems is the domain of forensic audit and investigation. Forensic accounting technology emerged for managing compliance risk and reputational risk arising from fraud.

With cooperation from UK, USA and other countries a global front was created to combat cross-border fraud and bribery and an initiative was taken to make the technology of forensic audit more meritorious and effective.

Fraud is complex maneuvering and investigation of data for fraud detection is humongous. Culprits are using sophisticated technologies in committing frauds. To withstand this, cutting edge technologies and analytics is to replace stereo type investigation methodology. Therefore right technology is required to be placed on the IT platform.

Regulation of US FCPA and UK’s Bribery act require compliance with mandate for electronically stored information.

**Risk**

Risk persists because personal information deleted in mobile phones can be retrieved and misused.

Risk arises also because digitized information resides in hard drives and is unsecured and require continuous monitoring programme including governance of risk and compliance tools. Cyber crime is a great threat to the system. Expansion of business geographically and organically means more risk. Vintage tool for risk mitigations in an expanding organisation is a great threat. Therefore new tools e.g Data visualization, statistical analysis, text mining concepts etc are required to be adopted.

Incompatibility of data and technology with In house tools may not cope with increasing risk.

**Strategies to be adopted**

Strategies to be adopted for proper data interpretation in high velocity mass of data are required for monitoring compliances.

More sophisticated technologies then use of spreadsheet and database application is necessary to combat the changing milieu in the business environment. Statistical tools that have predictive modelling and risk coding algorithms will be able to stop improper payment with lack of propriety. Effective use of text mining tools is also a dire necessity.

Along with these use of data matching techniques with watch list is required to prevent occurrence of fraud. These may be accompanied by other validation techniques. For example scoring model with multiple risks attributes.

Continuous monitoring programme (CMP) will deter fraud. CMP involves use of forensic technologies in data mining for identifying suspicious transactions. This is to be coupled with E-discovery solution, processing of which will throw light on the suspects. Digital forensic also known as computer forensic will help compliance culture and will reveal Email traces of the origin of the data.

**Various techniques of forensic accounting**

Conventional accounting tools like trend analysis, ratio analysis, fund flow analysis, cash movement analysis are to be supplemented by forensic technology for source data and few other forensic accounting tool like BENFORD’S LAW, theory of Relative size factor, computer assisted auditing tools to process data of audit significance in the IT platform, data mining techniques etc.

Benford’s Law, also called the First-Digit Law, refers to the frequency distribution of digits in many (but not all) real-life sources of data. In this distribution, the number 1 occurs as the leading digit about 30% of the time, while larger numbers occur in that position less frequently: 9 as the first digit less than 5% of the time. The figures are subjected to parametric test called Z test and variance between Benford’s % no. and observed no. decides the amount of confidence on the mass of data of both the % matches, it means there is no chance of error.

The purpose of the Relative Size Factor test (RSF) IDEA Script is to identify anomalies where the largest amount for subsets in a given key
is outside the norm for those subsets. This test compares the top two amounts for each subset and calculates the RSF for each. Utilizing the largest and the second largest amount to calculate a ratio based on purchases which are grouped by vendors, in order to identify potential fraudulent activities in invoice payment data, has often been suggested as means of fraud examination.

Computer Assisted Audit Tools and Techniques refers to the use of any computerized tool or technique which increases the efficiency and effectiveness of the audit function. CAATs are useful for:

- Management of control deficiencies and risk;
- Investigation of 100% data population;
- Identification of business improvement opportunities;
- Improves data integrity;
- Fraud detection mechanism; and
- Cost effective

Data Mining is an analytic process designed to explore data (usually large amounts of data - typically business or market related - also known as "big data") in search of consistent patterns and/or systematic relationships between variables, and then to validate the findings by applying the detected patterns to new subsets of data. The ultimate goal of data mining is prediction. The process of data mining consists of three stages:

1. The initial exploration
2. Model building or pattern identification with validation/verification
3. Deployment

Forensic Accounting: Beyond the basics
Consider how much data is stored electronically in your organization. How do you track and organize the data so that it can be recovered in a meaningful way? Data even exists on your systems about your data (this type of information is called metadata). In many corporate environments, data exists not only on one employee’s personal computer (PC), but on a server (or multiple servers). Advances in cloud technology, with data stored at offsite locations across town or across the world, can serve to complicate forensic efforts necessary to retrieve relevant information, such as files with critical information that log access attempts, file modifications, deleted files and more are stored on both local PCs and servers. Forensic accountants use this type of data to investigate deeper into the transactions performed constantly within a company's systems. Retrieval of specific information over a far flung array of computers, smartphones and servers can be a daunting task, especially when knowledge of accounting theory is required to determine data relevance.

Conclusion
The major concern of the country is to prevent white collar crimes which affect the very fabric of the society. Forensic accounting has come up as an effective tool for preventing this menace. It is still in a nascent stage and requires technological reinforcement on a continuous basis and global cooperation. It will develop as a specialised profession of accountancy and its importance to law enforcing agencies and also regulators will increase day by day. Lot of research is also needed and accountants will play a very significant role in this mission.

sukamal_1946@yahoo.co.in
The word forensic underscores the application of scientific methods and techniques to the investigation of crime, as much as it is concerned with courts of law. In effect, forensic accounting refers to the application of accounting principles, theories and discipline to facts and hypotheses at issue in a legal context, embracing litigation or any other form of dispute resolution such as arbitration. Forensic accounting encompasses all accounting and financial analyses performed for assisting counsel in connection with investigation, assessment and proof of issues in a dispute-resolution proceeding. All this involves skilful gathering and reconstructing financial evidence and solving problems within the context of the rules of evidence and the legal system. Analysis and reconstruction of documentary evidence and information, tracing of funds, location of assets and interpretation of different business transactions figure prominently in the scheme of things of the forensic accountant.

The meaning of audit, on the other hand, embraces the regular and systematic review and appraisal of factors and forces that contribute to the realization of organizational goals. In our scheme of thought, both past and present coalesce to form a whole, seeking to present the work-frame of a company as the owner of all its assets as a discrete entity, with profit accruals to itself as remuneration of the fourth factor of production. While the company does engage itself in creating socially required utilities, including both products and services, accounting for all the resources garnered and deployed for this purpose, audit ensures that all these productive efforts remain centripetal to the objectives of the company, as detailed in the objects clause of the Memorandum of Association, which is the de facto charter of its existence. Collocation of accounting and auditing figures in forensic exercises as complements, insofar as the two together afford construction of evidence and having a relook at what has been made out.

In its day-to-day operations a company has to contend with a great many forces that tend to threaten its operational standing right from the stage of supply chains to the markets where it earns its life-blood, profit. In this process, the company encounters belligerent forces all along the line, earnestly attempts to respond to the multiple

**A THEORETICAL CONSTRUCT OF FORENSIC ACCOUNTING AND AUDITING**

In the ultimate analysis, forensic accounting and forensic auditing are concerned with finding the truth to help punish the guilty and protect the innocent.
requirements of the law in its structural and functional designs seeking to ensure smooth functioning day-to-day. In addition, there are also numerous operational tit-bits underlined by the long emerging cult of managerialism in its multiple manifestations, seeking excellence in every nook and corner of the company’s inside and outside.

**Other people’s money**

Managing ‘other people’s money’ is no small job and the charge of inefficiency hangs over the heads of all managers placed in charge of corporate functions in a continuous game of ‘thrust–parry–thrust’ for outdoing competition, albeit the fact that their discrete contribution to the wealth creation process is yet not certain and all the booty accruing to them is a prior charge on profit. The hitherto ‘invisible hand’ has since been found visible and identified as belonging to professional managers relying more on techniques commanded by what has been called the new science of decision making, seeking to raise managerial activities to a high level of profundity, though
the illusion of shareholders’ owning corporate property continues unabated. However, behind all these tall talks and overt sophistication of styles of management lies misfeasance, greed and autocratic outlook as Kenneth Lay of Enron, Bernard Ebbers of WorldCom and a whole host of top, middle and lower level managers throughout the world, covering both north and south – signifying that corporate property belonged to them – demonstrated beyond question. The Wall Street Journal, for instance, reported that Thomas Coughlin, former Vice-chairman of Wal-Mart, was curiously and totally unexpectedly found guilty of misappropriating $500,000, through fraudulent reimbursements and improper use of gift cards. The amount was quite small, considering his high position and the fat salary and perks to which he was entitled but he could not resist the temptation – and the amount was the cumulative total of rather small withdrawals over a period of time. Fraud surveys in the corporate world are basically concerned with people belonging to the lower rungs in the hierarchy; those belonging to the upper echelons generally escape notice. Coming to think of it seriously, the money that a corporation garners through subscription to shares belongs to the corporation as long as it is a going concern, an undying entity. Funds of the corporation are public funds, as other people’s money, than the company’s own, is at the root of all this, as much as the fact that stock market proceedings do not affect a company’s share capital.

Peculation

There is nothing private with respect to corporate functions; funds of the corporation are public funds, belonging to itself, as long as it is a going concern, an undying entity. Misappropriation of corporate funds is an act of peculation. Fallibility is not the exclusive preserve of the lowly, as the happenings in almost all countries of America, Europe and Asia, including our very own, recently demonstrated. All this, despite the proclaimed managerial-operational sophistication bringing at play all kinds of tools and techniques for unravelling what lies in the future, which happens to be the nub of the decision making processes, attesting what Peter F Drucker called ‘making the future to-day’. As products of the law that the companies are, with very large stakes and involvement, it is but natural that their day-to-day operations remained verily under the scanner so that they kept themselves on track as thrusters, rather than as sleepers. Peculation takes place in regard to the corporate coffers under the mistaken belief that managers own corporate property and there is nothing wrong when high level managers draw money under various pretexts for purposes of their own, which is tantamount to embezzlement. Their T.A. Bills and D.A., for instance, amount to huge sums even when they have been provided with means of transport and other facilities. In our country, long back the T.A. bills drawn by the officers of a large public corporation came under the scrutiny of a Parliamentary Committee that found many of the practices irregular and they involved a gargantuan sum of money. Perfidy in such cases takes many colours and shapes, not always in clear contours but invariably gathering momentum till reaching the finale. High and middle level managers are au fait with not only the management techniques under their focus, but also with all those peripherals that would fatten their pockets, irrespective of their status in the organization, high scales of salary and perks, defying all tenets of the upper stages of A. Maslow’s need hierarchy. The apodictic truth is that unless ways are found and fairly sensitive methods are put into play, it would be difficult to rein in all those centrifugal traits and habits of individuals, irrespective of their ranks and nature of exposure to various activities of a company. Such activities encompass a large number of issues that involve many centrifugal forces, only partially visible as faint signs at the beginning, but affecting adversely the operational contours of a company in the
long run. Thus, the focus on forensic checks and balances as a plank of the usual day-to-day operations derives its strength and relevance from the crying need for keeping the operative forces on track, with all the back-up resources in place, embracing the inside and the outside of the corporate precincts. It is the interest of the company – both in the short and the long run – ensuring its growth in chosen directions, in a world of business marked by keen competition and rapidly changing consumer tastes, that offers the bull’s eye. Forensic accounting and auditing ensure that the company does operate in an atmosphere congenial to the realization of its objectives, encouraging all the disruptive forces on its way. It is imperative to ensure, however, that no atmosphere of suspicion is created by the over-enthusiasm of the new genus of watchdogs even distantly disturbing normalcy of the rather touchy decisioning phenomena within the organization. The phrase, whistle blowing, is avoided in this context because of the inherent complications that the phrase conveys, insofar as the fraudsters would not like to be identified without solid proof of their misdoing, giving them a chance to erase out the evidentiary details by way of either formalizing their deeds or hiding all these critical details including papers or persons in collusion with both insiders and outsiders of different descriptions. A better alternative to whistle blowing is initiating public interest litigation, having marshalled all the relevant evidence for arguments in courts of law, with a judge as the arbiter and an effective decision maker offering protection to the plaintiff. Particularly when the top brass of a company is involved, whistle blowing may misfire as the whistle blower may himself be implicated under different pretexts for bringing unsavoury charges, having been denied access to the records that could prove beyond doubt the veracity of the points at issue.

The underlying Indicia
It is thus important that all financial, operational and commercial activities as also other related issues came under scrutiny throwing up overt or covert hints stirred the forensic investigators into action, without those involved in gypping knowing it. Such investigators do their job in the garb of assignees of a variety of tasks and responsibilities so that likely culprits do not suspect that their activities are under watch. This is a tricky job but the lure of easy gain is so much that many a time the suspected culprits become reckless. However, when the forensic accounting and auditing are a part of the overall accounting and internal control system, and all slip- pages are brought to the notice of the top management, possible culprits become cautious and they dare not indulge in practices that might cause trouble in the end. Laxity on the part of top and middle management may provide leeway to those below to indulge in unacceptable practices for their personal grain. Possible perpetrators of fraud may be caught in the act or they may be prevented from committing such act when regular and systematic counterchecks are in place. This does not happen so easily when top management is involved. The land scam in Satyam Computers Ltd., was detected and brought to the notice of the Ministry of Company Affairs and SEBI in 2001 by Dr E. A.S. Sarma, Secretary, Economic Affairs, in the Union Ministry of Finance; instead of bringing the miscreants of the company to book, Dr Sarma was himself eased out of his position. Ultimately, however, it was the World Bank that caused the downfall of the company, resulting in putting Rama Linga Raju in jail, while the funds involved in the scam ran to quite a hefty sum of 7,000 crores of rupees. Two partners of one top audit firm of the country were reportedly involved in the scam. Satyam Computers Ltd., later became Mahindra Satyam first, and then, ultimately taken over by TechMahindra Ltd. The scam involved account fabrication, fraudulent diversion of funds, money laundering, foreign exchange manipulation, insider trading, criminal breach of trust, income tax violation and round tripping of ill-gotten wealth. The lessons are loud and clear to the effect that timely top management and governmental action could surely have prevented many such disasters in the corporate world. Stern Government action would have been quite appropriate in his context because companies are products of the law and have perpetual succession, owning their assets and owing their liabilities. As it happened, the officialdom chose to turn the other way, till the World Bank intervened for chastising the culprit(s).

Indicia glossed over
One would not have to go far for seeking the indicia, they may have been quite near at hand; unless timely actions were taken, huge resultant loss could not be averted. Indicia in the aforesaid context are many and they may be available quite at hand but the crux of the matter – action – may be miles away, as proved in the Satyam case. To the right-minded top corporate managers, internal and statutory auditors, forensic accountants, SEBI and the Gov-
ernment in the Union Ministry of Company Affairs, the indicia are indeed many, but initiating timely action, both curative and preventive, is the point at issue, though all this was tantamount to begging the question. The cases pending with the SFIO (Serious Fraud Investigation Office) as presented in the MCA portal on the Indian Companies at Work, 2011–12, seem apparently long-drawn, with the speedy resolution of disputes being a far cry! There are of course good reasons for the long time taken in settling disputes, but the fact remains. There are, however, no easy escape routes for the two categories of companies which were granted the Certificate of Incorporation by the authorities, namely, vanishing companies and dormant companies. Forensic accountants, with their kit of tools and techniques, could prepare necessary papers highlighting issues in frames of evidence for arguments in courts of law, indicting the errant entrepreneurs for launching on such misadventures causing huge damage and loss of public funds. It may not be out of place to mention here that several of the obnoxious issues coming to light from time to time are systemic, like, for instance, insider trading or stock market manipulation for getting the certification by ESOP holders that everything related thereto has conformed to the rules and regulations. As long as the system allows executives to play all kinds of shenanigans, it is hardly possible to bring them to justice. Even otherwise, public interest litigations with respect to corporate scandals have been few and far between, mainly because of the belief that companies belong to the shareholders, majority shareholders, for that matter. Even governments have been guilty of creating confusion, for instance, by way of creating a new category of companies called government companies on the basis of fifty one plus percentage of shareholding, a virtual denial of a series of legal decisions to the contrary. Public property and private property have between them several features that distinguish one from the other: the public properties, as the saying goes, are much easier targets for fraudsters to play their tricks.

**Accounting practices**

As several instances in the recent past have underscored, it is imperative that a company took essential measures for protecting against the risk that an officer or employee might cook the books, alter certain figures in order to boost performance or hide problems. The law everywhere mandates that public limited companies maintained accurate books, records and accounts, develop systems of internal controls to ensure that corporate assets can only be accessed in accordance with corporate policies. Intentional misstatement of finances or operating results would constitute violation of law, making all those concerned liable to both civil and criminal charges, depending on the facts of the situation. Unholy relationships between the employees or those outside a company’s employment, like the company’s suppliers, spell disadvantage for the company in a number of ways. In many a case, such relationships end up in putting the company in a disadvantageous position though these facts may not be quite in the know of the concerned managers and men. (Cf. Eugene M. Proper, Corporate Fraud Investigations and Compliance Programs, Oceana Publications, Inc. Dobbs Ferry, NY, pp. 135–136). Industrial espionage and divulging secrets related to products and processes and policies related to placement, pricing and promotion, may cause irreparable damage to the competitive strength of the company. Industrial espionage has already become flourishing business in many a country. Infringement of patent laws, capture of market segments or even change of pricing policies resulting from such relationships may cause harm of which symptoms are not reflected in the accounts immediately. Forensic accountants may notice such facts through indirect means, even by way of conversation with those concerned without giving any overt impression regarding either the purport of such conversation or the effects thereof. Destructive tests of electronic or even other products, on the basis of cues received from such apparently innocent conversation, could deal heavy blows to the future prospects of the company. The net-spread of the forensic accountant thus goes beyond what appears in books of account, but does have a high impact on the company’s finances tracing, as he does, the actual and/or potential effects, both technically and financially. Ideally, the forensic accountant is an unassuming, often silent, performer with a knack of going deep into the causality of events, collecting and tying threads, having a direct impact on the company’s finances such as the transactional review, operational functions, funds movement, document analysis and, finally, document reconstruction, apart from the usual financial matters, but not necessarily tied to them because each situation may be quite novel and non-repetitive in character and content. To say the least, funds movement, inquiry into
the details and contents of transactions with impact on funds inflow and outflow, sale and purchase of assets with emphasis on the resolution of conflicts will have figured prominently in the focus-areas of forensics.

**Forensic auditing**

Collocation of forensic accounting and forensic auditing suggests that the two are not exactly the same or even similar. While forensic accounting does involve elaborate inquiry and investigation into the transactional typicality of the connected issues and events, the job of forensic audit is to provide a double check on the consistency issues, questions that the counsel may ask in the context of arguing in courts. The construction of documents from the titbits of evidence that the forensic accountant may have done could as well be an inadequately framed document, leaving gaps with respect to the numerous accounting, auditing and management accounting standards which the counsel may not be prepared to accommodate in the brief that he seeks to prepare. Ump-teen laws, a whole world of court judgements, conflicts in national and international approaches to these issues may indeed remain beyond the grasp of the forensic accountant. As the definition of audit underlines, forensic audit lays the stress on regular and systematic review and appraisal of the factors and forces contributing to the preparation of the papers, the brief, for assisting counsel in presenting his arguments. Many a time, the counsels of either side are accompanied by a team of experts on specific areas of inquiry and when the judge asks questions, expert comments may be offered according as admitted in court proceedings. Specific issues found relevant for consideration of resolution may indeed be better explained and answered by the forensic auditor than the forensic accountant. In fact, there may indeed be role reversal, as between them, in different cases for resolution in courts, depending on the specific areas of expertise and experience in dealing with an issue. Some instances may drive the distinction home. In our country, there are many practising chartered and management accountants with multidisciplinary specialisations. For untangling the knots in specific points of dispute, such expertise may come in handy in the context of deposing in courts, replying to questions asked by the learned judges in resolving a dispute. In matters of identification of individuals on the basis of scanty evidence such as tooth, hair, bone drops of blood, thumb impression, etc., expertise in forensics has been traditionally sought and accepted in identification of culprits for indictment. Forensic accountant and forensic auditor may together represent several areas of expertise to the satisfaction of both the counsels on either side and the learned judge. In the specific context of a dispute with respect to corporate affairs, evidence and expert comments of forensic accountants and forensic auditors, along with other experts, have been found acceptable in many a case. Forensic accountant and forensic auditor act as complement to each other, teaming up for better results, both with respect to the finding of the truths and in dispute/conflict resolution – though not necessarily only in courts or in arbitration proceedings.

**Varying international conventions**

Corporate accounting practices and conventions have been at variance with one another in various countries and what may be an allowable practice in one country may be a riddance in another. The contents of accounting and auditing practices as also approaches to detecting, formulating and dealing with various transactional and disclosure problems bearing on many fraudulent occurrences have already been quite voluminous thanks to numerous accounting, auditing and cost accounting standards. However, as yet a good lot of related issues and grounds have remained uncovered, considering the growing inter-country industrial and commercial exchanges. These expansions in the operational canvas and other related matters have provided a good ground for tricksters to dupe the uninitiated into committing errors and practices punishable under their laws in force. In this respect, while the countries in European Union and America have more or less agreed to the codes of corporate governance, a good many loose ends still remain unattended. The accounting systems followed in the far eastern countries, for example, have been highly complicated and cumbersome, coming in the way of putting accounting and auditing practices on an even keel. And in all this, the accounting and auditing practices are not the only culprits; even the structures of corporate organization, methods of accounts keeping and auditing are different in these countries. In dispute resolution, within or outside courts, reconstruction of the formats of account, treatment of individual transactions, conformance to standards and other related issues would all call for probing the depths of transactional typicality, to bring all the details on a comparable format and then to offer opinions thereon. In the emerging atmosphere of large
participation of international companies with activities all around the world, the responsibilities of forensic accountants and forensic auditors will not only have gone up in volume, but also in complexities, awaiting solution. Not only are the forensic accountant and forensic auditor burdened with requirements of understanding the fraudulent transaction, their efforts are further complicated by having to determine if the activity in question is truly fraudulent, based on local and accounting conventions within the particular country. Indeed, a country’s reporting requirements may well accept an overt use of manipulation of earnings as an aggressive accounting method. ‘Money laundering’ has been a hot topic of discussion in many countries and laws in many countries are very strict in this regard. It does throw a challenge to the forensic accountants and forensic auditors not only to find out the amounts involved, but also to ascertain whether in the course of the inter-country transactions such amounts of money can indeed be treated as laundered, taking into view the period, circulation and disclosure of such amounts in the accounts. Infringement of law in one country may not be treated as such in another. The legal dictum, ignoria juris non-excussant, would not apply in all such cases, unless it becomes overt, or it is proved that the actions were prima facie mala fide. However, the complex money laundering schemes must be closely studied so that money derived from the unsavoury practices do not enter into the proceeds of all these transactions. The tasks and responsibilities of forensic experts dealing with such cases are a great deal more complicated than they look. In the ultimate analysis, forensic accounting and forensic auditing are concerned with finding the truth for helping to punish the guilty and protect the innocent. Companies, being incorporeal but real, functional entities, have the privilege of Caesar’s wife, causality being integral to the corporeal operators.

chattopadhyay.p@lycos.com
A MULTIDIMENSIONAL APPROACH TO INVESTIGATING FRAUDS AND SCAMS: A STUDY IN THE GLOBAL AND INDIAN CONTEXT

Though forensic accounting is at a nascent stage in India, it is currently in great demand with the public need for honesty, fairness and transparency in reporting increasing exponentially.

ECONOMIC and accounting scandals and scams have become a global concern in recent times. Umpteen number of economic scams and irregularities have churned out national and global markets many times since the Industrial Revolution. During the last few decades, there have been numerous financial frauds and scandals, which acted as milestones with lot of historical significance. Financial scam has become a real threat against the development agenda for developing and emerging nations. It is so endemic that fraud and corruption is gradually becoming a normal way of life. Financial irregularity is so common that our hands cannot be washed off or kept clean, as sometimes the impetus for its growth is provided...
in our own interest or in many cases we become the real victims of it. Economic irregularity is so pervasive that it touches the life of almost every individual and is scattered from grass root level to the top most position of the society—starting from the public sector to the private sector; from the presidential villa of the nation, down the political office—holding ladder, to the ward councillors; from managing directors of a company, through middle management cadre to as low as messengers. Individual perpetuates fraud and corrupt practice according to the capacity of their office (Sadiq).

There is no doubt that the main reason of all financial and accounting irregularities and scams is the greed to gain access to huge amount of funds illegitimately. In more simple word, it is the general tendency of people to maximise their financial/monetary resources (without taking into consideration whether they really need such plethora of monetary resources), in whatever way that remain open to them, legal or illegal. The financial resources are often replicated by money. Although Government of a country is the real owner of the currency, psychologically it is thought as ‘money always obeys the order of its master in whose hands it remains’. This psychological thinking has hypnotised most of the people, the result of which is that they are running after making money. It is a wrong notion that poor runs after making money. It is a rat race of making money. In the rat race of making money through the illegitimate ways of various economic scams, creative accounting, financial irregularities etc., the billionaires of many countries have won the match; the poor people of many countries have always been only the real victims and sufferers.

In this modern era, with the increase in economic activities and periphery of markets, there has been simultaneous increase in the activities like fraud, scam, creative accounting, financial irregularity etc. In order to combat with all these a new budding field of accounting has been blooming. It is known as forensic accounting (FA). It is also termed as forensic auditing. The growth of regulatory compliances, the increasing number of fraud and threats of many mal-activities leading to scams have beget a related development in the forensic accounting and forensic technology to unveil all these non compliance and fraudulent practices etc. Forensic accounting/auditing is an umbrella term used to denote the field of knowledge which is composed of accounting, auditing and investigative skills. In short, a forensic accountant is a bloodhound of accounting, not a watch dog. These bloodhounds sniff out fraud and criminal transactions in banks, corporate entities or from any other organisation’s financial records. External auditors find out deliberate misstatements only, but forensic accountants find out the misstatements deliberately (Singh, 2012).

Anatomy of the terms Fraud, Forensic and Forensic Accounting
The idea of forensic accounting has developed in order to probe into the existence of any fraud or irregularity in financial transactions or business deals or in any expenditure involving public money spent through development schemes/projects of national or state governments. Therefore the idea of fraud or intentional irregularity is very essential in the study of forensic accounting.

• Fraud: The word fraud means “a deceptive trick, scam, game artifice, cabal which is committed to cheat, mislead someone” and “contributing something useless to something in order to gain advantage” (Institute of Turkish History, 1998). According to Arzova (2003) fraud is “to create a misjudgement or maintain an existing misjudgement to induce somebody to make a contract”. However, one should not mix fraud with fault, which means “wrong, mistake, error committed voluntarily and unconsciously”. Fault stems from the deficiencies originated from person or environment. Therefore intention is the most important element which distinguishes fraud from fault.

• Forensic and Forensic Accounting: ‘Forensic’ means ‘suitable for use in a court of law’ and it is to that standard and potential outcome that forensic accountants generally have to work (Crumbley et al., 2005). Forensic accounting (FA) is an umbrella term which consists of accounting, auditing and investigative skills. It is a type of accounting suitable for legal review and blended with services like providing the highest level of assurance gathered through legal documentation of latest scientific fashion, core knowledge of GAAPs, standards and codes etc. According to Webster’s Dictionary, FA means, “Belonging to, used in or suitable to court, of judicature or to public discussions, debate and ultimately dispute resolutions, it is also defined as an accounting analysis that is suitable to the court which will form the basis for discussion, debate and ultimately dispute resolution.” Crumbley (2006) stated that forensic accounting is an accounting that is suitable for legal review offering the highest level of assurance and including the now generally accepted con-
Factors responsible for frauds and malpractices: The Fraud Triangle

There is no doubt that frauds and malpractices provide the impetus for forensic accounting or investigative auditing. But what are the factors for which people commit frauds or lead to accounting or economic irregularities? If an attempt is made to analyse the business or corporate frauds, one can unveil three main components for committing such “white-collar crime”. These factors are pressure, opportunity and justification for committing fraud which all together constitute “fraud triangle”. Components of the fraud triangle are similar to the fuel, spark, and oxygen which together cause fire. When the three come together, inevitably fire breaks out (Bozkurt 2003). Bozkurt (2003) has classified such factors in Table 1 on the next page.

The main task of forensic accountant is to trace the weak points in the business following the fraud triangle. It has been said that fraud triangle consists of three core concepts which together create a situation beneficial for committing fraud and malpractices. The above factors give birth to these core concepts: Incentive, Opportunity and Rationalisation. Recent study has shown another factor which is capability. For example, people must have the incentive and opportunity to commit financial frauds and irregularities, as well as ability to justify it by means of pleas. But in addition to that another element which required is capability. For instance, a person who does not have any basic knowledge of accounting cannot commit any fraud by manipulating numbers even if there are ample incentives and opportunities. The reason is that it is beyond his level of capability as to how to manipulate numbers by means of accounting entries or wrong valuation or classification of items.

According to Idowu-Freaon (2005) following conditions make perpetration of corrupt practices easy which, in turn, make smooth way for committing any fraudulent acts:

- Concentration of power in decision makers who are not directly
accountable to the people often seen in non-democratic regimes.
• Lack of Government transparency in decision making.
• Costly political campaigns.
• Large amount of public capital in a project.

• Apathetic, uninterested or gullible populace that fail to give adequate attention to political processes.
• Weak legal profession.
• Absence of adequate control to prevent bribery.
• Poor paid government officials.

However the above factors are found relevant in third world countries like Ghana, Nigeria etc.

An epitome of consequences of frauds and scams: Global and national scenario
Accounting/economic frauds and scams are not new topic. They took place in all eras and all countries with varying level of intensity and occurrence. Due to the blessings of different media (print or audio visual or social) nowadays reports on scams and fiascos spread like forest fire. Fraud is a worldwide phenomenon that affects negatively all continents and sectors of the economy and most entities may face it regardless of their size, nature, industry or country they belong. Worldwide various reports have shown that scandals and frauds not only bring about monetary losses, but are also responsible for contagious negative impacts on stock markets, growth and GDP etc. throughout the world.

Instances of reported frauds by high-profile leaders
Although fraud and corrupt practices are globally endemic, however, the rate at which public office holder in developing economies perpetrate financial malpractice is dangerously alarming. Leaders of third world nations, especially, embezzles public fund not minding whatever consequences their activities may have on the citizens of the country and their image in the international community, when their nefarious act become known to the world (Adefila, kasum and Olaniyi, 2006). A brief disclosure of loss suffered due to frauds and scandals by high-profile leaders are shown on the right.

| Table 1 |
|------------------|------------------|
| **1. Pressure Factors** | **2. Opportunity Factors** |
| **• Pressures with financial content** | These factors directly involve top management and owners of the business in particular. The control structure of a business and fraud has inverse correlation. That is better the control structure; lower the scope of committing frauds and vice versa. The following factors are responsible for providing opportunity to commit frauds: |
| Such pressures may be long-term and short-term. These arise when people are in need of cash. These can again be classified as follows: | • Weak moral policies; |
| • Itching palm and greediness; | • Undisclosed contracts made with third parties and partners; |
| • Desire to live well; | • Incapability to assess the quality of job performed by the employees; |
| • High amounts of personal debts and health expenditures; | • Absence of well disciplined environment in which fraudsters will be punished; |
| • Unexpected financial needs. | • Ignorance, indifference and inabilities of top management; |
| **• Pressures stemming from bad habits** | • Lack of healthy audit work. |
| Such pressures are accepted as the worst kind of factors motivating frauds. The main reasons for such pressures are some attributes related with human qualities. Such attributes are: | |
| • Gambling, drug or alcohol addict; | • Being dissatisfied with the job; |
| • Night life habit. | • The idea of an unfair attitude; |
| **• Pressures related with job** | • Not getting promotion when expected; |
| Such pressures stem from the following: | • Lower wages structures; |
| • Being dissatisfied with the job; | • Not admired by Supervisors. |
| • The idea of an unfair attitude; | |
| • Not getting promotion when expected; | |
| • Lower wages structures; | |
| • Not admired by Supervisors. | |

In order to prevent all these factors, business should establish moral code and provide employee training.
Magnitude of losses suffered by frauds and malpractices: A survey of various reports

- **Kroll’s Global Fraud Report (2014):** Recently in July and August 2013, a worldwide survey on fraud and its effect on business has been commissioned by Kroll and conducted by the Economist Intelligence Unit. In this survey more than 901 senior executives worldwide from a broad range of industries and functions were polled. 24% were based in North America, 25% in Europe, 23% in Asia Pacific, 14% from Latin America, and 14% in the Middle East and Africa. The survey covered more than 10 industries. The details of findings are enumerated in Table 2.

- **KPMG Survey (2009):** It was a survey of 204 executives of US companies with annual revenues of $ 250 Million or more. It revealed that 65% respondents considered frauds to be a significant risk for their organisations.

- **ACFE Report (2010):** The Association of Certified Fraud Examiners’ (ACFE) “Report to the Nations on Occupational Fraud and Abuse” found that the cost of fraud to US organisations is extensive i.e. 5% of annual revenues. When such cost is applied to gross world product of 2011, this figure translates to a potential projected annual fraud loss of more than US $ 3.5 trillion. The median loss caused by the occupational fraud cases was US $ 140,000.

- **COSO Fraud Report (2010):** The Committee of Sponsoring Organisations (COSO) of Treadway Commission analysed 347 frauds investigated by the US Securities and Exchange Commission (SEC) from 1998 to 2007. It found that median dollar amount of each instance of fraud had increased 3 times from median of US $ 4.1 Million in 1999 to the level of US $ 12.0 million.

- **The Ernst and Young’s “India Fraud Indicator Report” (2012):** The report stated that during 2011–12, total losses suffered in India was INR 66 billion. Data compiled by the Reserve Bank of India (RBI) disclosed that money lost by banks due to frauds and scams had doubled in the past respectively.

- **National Fraud Authority (UK), Annual Fraud Indicator Report (2012):** The scale of fraud losses against all victims in UK is £ 73 billion p.a. The relevant figures were £ 13, £ 30, £ 38 billions p.a. in 2006, 2010 and 2011 respectively.

### Table 2: Percentage of Companies affected by Listed Frauds (Figures are in percentage)

<table>
<thead>
<tr>
<th>Types of Frauds</th>
<th>2013</th>
<th>2012</th>
<th>2011</th>
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<tbody>
<tr>
<td>Theft of physical assets</td>
<td>28</td>
<td>24</td>
<td>25</td>
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<tr>
<td>Information theft</td>
<td>22</td>
<td>21</td>
<td>23</td>
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<tr>
<td>Management conflict of interest</td>
<td>20</td>
<td>14</td>
<td>21</td>
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<tr>
<td>Vendor, supplier or procurement fraud</td>
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<td>12</td>
<td>20</td>
</tr>
<tr>
<td>Internal financial fraud</td>
<td>16</td>
<td>12</td>
<td>19</td>
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<tr>
<td>Corruption and bribery</td>
<td>14</td>
<td>11</td>
<td>19</td>
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<tr>
<td>Regulatory or compliance breach</td>
<td>16</td>
<td>11</td>
<td>11</td>
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<tr>
<td>IP theft</td>
<td>11</td>
<td>8</td>
<td>10</td>
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<tr>
<td>Market collusion</td>
<td>8</td>
<td>3</td>
<td>9</td>
</tr>
<tr>
<td>Misappropriation of company funds</td>
<td>8</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Money laundering</td>
<td>3</td>
<td>1</td>
<td>4</td>
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**Source:** Kroll Global Fraud Report, Key Facts and Figures, Annual Edition: 2012/2013 and 2013/2014

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<table>
<thead>
<tr>
<th>Head of Government</th>
<th>Designation</th>
<th>Period</th>
<th>Estimates of funds allegedly embezzled</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mobutu Sese Seko</td>
<td>President of Zaire (Congo Dr)</td>
<td>1965-97</td>
<td>US $ 5 Billion.</td>
</tr>
<tr>
<td>Jean-Claude Duvalier</td>
<td>President of Haiti</td>
<td>1971-86</td>
<td>US $ 300-800 Million.</td>
</tr>
<tr>
<td>Ferdinand Marcos</td>
<td>President of Philippines</td>
<td>1972-86</td>
<td>US $ 5-10 Billion.</td>
</tr>
<tr>
<td>Siobodan Milosevic</td>
<td>President of Serbia Yugoslavia</td>
<td>1989-2000</td>
<td>US $ 1 Billion.</td>
</tr>
<tr>
<td>Sanni Abacha</td>
<td>President of Nigeria</td>
<td>-</td>
<td>US $ 2-5 Billion.</td>
</tr>
<tr>
<td>Alberto Fujimnori</td>
<td>President of Peru</td>
<td>1990-2000</td>
<td>US $ 600 Million.</td>
</tr>
<tr>
<td>Arnoldo Aleman</td>
<td>President of Nicaragua</td>
<td>1997-2002</td>
<td>US $ 100 Million.</td>
</tr>
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</table>

**Source:** Transparency International (2004)
4 years. Losses incurred by banks due to fraud increased by 88% in 2010-11 to exceed INR 37.9 billion (more than INR 20.10 billion in 2009-10).

- PwC’s “The 4th Biennial Global Economic Crime Survey: India” (2007) Report: According to this report the total cost of fraud in India and world is in Table 3.

**Major financial and accounting scams, frauds and economic: global and national real threats**

- **Global scenario**
  There are plethora of reported scams, scandals and fiascos throughout the world. They include companies from developed countries to companies from underdeveloped nations. In many cases leaders of national governments were also convicted of being engaged in financial irregularities or scams. Some of the companies where frauds were being reported with their countries are briefly enumerated on the right.

- **Indian scenario**
  India, an emerging country, has also noticed umpteen numbers of scams and fiascos. Following are some bird’s eye view of such scams and malpractices or accounting irregularities on next page.

**Forensic accounting engagement: How it is conducted**

Since each and every fraud and financial irregularity is unique, accordingly the approaches to be adopted to unveil each of them will be specific to it. Association of Chartered Certified Accountants (ACCA) has provided guidelines to perform such audit in general. However such guidelines are applicable in general. Forensic investigator has to develop some specific unique procedures to detect the

<table>
<thead>
<tr>
<th>Table 3: The Cost of Fraud in India, Asia and Pacific and Global</th>
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<tbody>
<tr>
<td><strong>Items of Loss</strong></td>
</tr>
<tr>
<td>1. Direct Loss (Average in US $)</td>
</tr>
<tr>
<td>2. Management Cost (Average in US $)</td>
</tr>
<tr>
<td>3. Damage to reputation or brand (% of cases)</td>
</tr>
<tr>
<td>4. Decline in staff morale (% of cases)</td>
</tr>
<tr>
<td>5. Damage to external business relations (% of cases)</td>
</tr>
<tr>
<td>6. Strained relations with regulator (% of cases)</td>
</tr>
<tr>
<td>Total cost of fraud (1+2)</td>
</tr>
</tbody>
</table>


<table>
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<tr>
<th>Companies</th>
<th>Country</th>
<th>Companies</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>HIH Insurance, Harris Scarfe and One Tel</td>
<td>Australia</td>
<td>Adecco International</td>
<td>Switzerland</td>
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<tr>
<td>ComRoad, Phenomenia, MLP, Hugo Boss, Nici, Zapf Creation</td>
<td>Germany</td>
<td>Barings Bank Equitable Life, Wiggins, Versailles</td>
<td>UK</td>
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<tr>
<td>Baan Company, Ahold NV, LCI Computer, Landis</td>
<td>Netherlands</td>
<td>Gescartera, Bafisa, Afinsa and Forum Filatelico</td>
<td>Spain</td>
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<td>Dynamic Life, Ipirotiki Software</td>
<td>Greece</td>
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<tr>
<td>Parmalat, Freedomland, Finmatica</td>
<td>Italy</td>
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<tr>
<td>Global Crossing</td>
<td>Bermuda</td>
<td>PT Bank Bali, Sinar Mas Group</td>
<td>Indonesia</td>
</tr>
<tr>
<td>Nortel Networks</td>
<td>Canada</td>
<td>Bangkok Bank of Commerce</td>
<td>Thailand</td>
</tr>
<tr>
<td>Elan</td>
<td>Ireland</td>
<td>United Engineers Bhd</td>
<td>Malaysia</td>
</tr>
<tr>
<td>ABB, Skandia, Prosolvia</td>
<td>Sweden</td>
<td>Samsung Electronics, Hyundai</td>
<td>Korea</td>
</tr>
<tr>
<td>Vivendi Universal</td>
<td>France</td>
<td>IHL, Sanyo Electric</td>
<td>Japan</td>
</tr>
<tr>
<td>Adelphia Communication, IBM, Enron, Xerox, Madoff Securities, Lehman Brothers</td>
<td>USA</td>
<td>Zhengzhou Baiwen, Shandong Bohai, Jinzhou Port, Kelon</td>
<td>China</td>
</tr>
</tbody>
</table>

frauds and malpractices. Therefore instead of adopting prototype procedures as are followed in case of financial audit assignment, forensic investigator should adopt situation oriented procedures. The procedures are discussed below:

Meeting with the client and accepting the engagement
In order to understand important facts, players and issues etc., the investigator must meet the client. It is to be considered initially that whether his firm has the necessary skills and experience to accept the work. Such audits are highly specialized and the work requires detailed knowledge of fraud investigation techniques and the legal framework.

Performing conflict check
Additional consideration is whether or not the investigation is being requested by the audit client. In order to achieve objectivity, a conflict of interest check should be carried out as soon as the relevant parties are established. Fees may also be negotiated at this stage depending on specific nature of accounting and auditing work and the likely involvement of the experts in team.

Performing initial investigation
It is generally desired to perform an initial action plan prior to developing a detailed plan. Such initial action plan will help to formulate subsequent planning to be based upon more complete and comprehensive understanding of the situation.

Planning the audit or formation of robust action plan
This is to be developed based on the meeting with the client and carrying out the initial investigation scanner on the subjects to be investigated. This action plan will set out the objectives to be achieved and the methodologies to be adopted. The investigation team must carefully take into consideration the objectives to be achieved and plan their work accordingly. The objectives of such assignments include:

- Identifying the types and nature of the frauds or irregularities that have been operating.
- The estimated time period of their occurrence.
- How the fraud was concealed, the techniques and methods adopted for their concealment.
- Identifying the fraudster(s) involved.
- Assessment of the financial losses and quantification of them.
- Gathering the evidences to support the court’s proceeding.
- Providing advice so that re-occurrence of the fraud can be prevented.

Gathering relevant evidence
It involves obtaining relevant documents, economic information, tracing different assets/ persons/ unaccounted records, meeting with other experts, statutory and internal auditors of the client. The evidences gathered should be sufficient to ultimately identify and prove the fraudster(s) and the mechanism adopted for such frauds.

Analysis of evidences and other supporting information
The actual analysis to be performed will solely depend upon the nature of the assignment. This may include:

- Summarisation of a large number of transactions.
- Performing robust procedures to trace unidentified assets.
- Calculating the economic damages and if required, the loss of goodwill.
- Estimating the present value of the financial losses or frauds involved in case such irregularities or frauds

<table>
<thead>
<tr>
<th>Scams and Frauds</th>
<th>Year</th>
<th>Losses Suffered (Rs.)</th>
<th>Scams and Frauds</th>
<th>Year</th>
<th>Losses Suffered (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Harshad Mehta Securities Market Scam</td>
<td>1991</td>
<td>5,000 Crore</td>
<td>Madhu Cora Scam</td>
<td>2009</td>
<td>4,000 Crore</td>
</tr>
<tr>
<td>Fodders Scam (Chara Ghotala)</td>
<td>1992</td>
<td>950 Crore</td>
<td>Commonwealth Games Scam</td>
<td>2010</td>
<td>2,342 Crore</td>
</tr>
<tr>
<td>C. R. Bhansali Scam</td>
<td>1995</td>
<td>1,200 Crore</td>
<td>Adarsh Housing Society Scam</td>
<td>2010</td>
<td>-</td>
</tr>
<tr>
<td>Ketan Parekh Securities Market Scam</td>
<td>2001</td>
<td>1,250 Crore</td>
<td>Sahara India Pariwar Investor Fraud Scam</td>
<td>2010</td>
<td>25,000 Crore</td>
</tr>
<tr>
<td>The UTI Scam</td>
<td>2001</td>
<td>4,800 Crore</td>
<td>Coal Block Allocation/ Coalgate Scam</td>
<td>2012</td>
<td>1.856 Billion</td>
</tr>
<tr>
<td>Uttar Pradesh Food Grains Scams</td>
<td>2003</td>
<td>35,000 Crore</td>
<td>Karnataka Wakh Board Land Scam</td>
<td>2012</td>
<td>20,000 Crore</td>
</tr>
<tr>
<td>Satyam Scam</td>
<td>2008</td>
<td>10,000 Crore</td>
<td>Uttar Pradesh NHRM Scam</td>
<td>2012</td>
<td>10,000 Crore</td>
</tr>
<tr>
<td>The 2 G Spectrum Distribution Scam</td>
<td>2008</td>
<td>1,75,000 Crore</td>
<td>Saradha Group Financial Scandal</td>
<td>2013</td>
<td>200-300 Billion</td>
</tr>
</tbody>
</table>

Source: CapitalVia Global Research Ltd, Indian Stream Research Journal and others.
took place for a long period of time.
• Performing the statistical regression or sensitivity analysis of the frauds etc.
• Using various computerized application softwares and graphs etc. to explain and analyse the frauds.

Preparation of Report:
The report generally includes various sections describing the nature of the assignment, scope, approaches utilized, findings, opinions and limitations. Report is generally submitted to the appointing authority.

A flow chart of forensic accounting engagement is shown in Appendix I.

Contents of Forensic Engagement Report
The contents of the report may vary depending on the situation, the nature and extent of the frauds and irregularities involved. The generalised form of such forensic accounting investigation report is shown on right.

Applications of forensic accounting around the world
Presently forensic accounting profession has gained increasing importance. Applications and relevance of such accounting in some developed countries are briefly stated below:

Canada
Canada considers forensic accounting engagements as profession. According to the Certified General Accountants Association of Canada, such profession is relatively new. It intends to join hands with Canadian Institute of Chartered Accounts (CICA) to formulate standards on such audit.

Australia
Forensic accountants work within an environment that also includes industry, professionals, regulators and government. They may work in conjunction with these entities or considering the rules, regulations enforced by them. Some commonly encountered regulatory bodies in Australia are Australian Securities and Investment Commission (ASIC), Australian Tax Office (ATO), Financial Action Task Force (FATF). Professional organisations interacting with forensic accountants include Certified Public Accountants (CPA) and Institute of Chartered Accountants of Australia (ICAA). The works of Australian Federal Police (AFP), state and specialist police or government’s tasks forces also include some areas in common with forensic accountants. In addition, in Australia there is a graduate degree programme in forensic accounting. The master program emphasizes a forensic rather than a control-based or risk management approach to analysis of fraud.

United States of America
Forensic audit found its new place when a landmark legislation known as the Sarbanes-Oxley Act (SOX Law) was enacted in the US on 30th July, 2002. It was passed in the wake of accounting scandals such as Enron, WorldCom
and Xerox which seriously undermined investors’ confidence. In the USA, forensic accountants have been employed by the Federal Bureau of Investigation (FBI), Central Intelligence Agency (CIA), Internal Revenue Service (IRS), Federal Trade Commission (FTC), Homeland Security, Bureau of Alcohol, Tobacco and Firearms, Government Accountability Office (GAO), and other government agencies focusing on what is referred to as white-collar crime, notably fraud. Outside of government agencies, big employers of forensic accountants include banks, insurance companies, divorce attorneys etc. They often testify in civil and criminal court hearings serving as expert witnesses. The expert witness presents evidence and whether fraud is committed or not is decided by the court. Moreover numerous organisations like American College of Forensic Examiners, Association of Certified Fraud Specialists, National Litigation Support Services Association, National Association of Certified Valuation Analysts, American Institute of Certified Public Accountants (AICPA), The Institute of Business Appraisers etc. support the tasks of forensic accountants.

Relevance and legislative support of forensic accounting in India

Although forensic accounting is not directly mentioned in any Indian statute, but various provisions of different statutes resemble the tasks of forensic investigator. They are:

  - Comment and Observation on Fixed Assets: CARO 2003 requires an auditor to report whether a substantial part of fixed assets have been disposed off during the year and whether such incident has affected the status of going concern. In this context the auditor has to refer to AS 24- Discontinuing Operations, SA 570- Going concern issued by ICAI.
  - Report on Fraud: It requires that auditor should report whether any fraud has been noticed by him. If it is noticed the auditor should mention it in his report. In this context he may refer to SA 330- Auditor’s Responses to Assessed Risks, SA 240- Auditor’s Responsibility Relating to Fraud in an Audit of Financial Statements

- **Investigation and Inspection:**
  Forensic accountants and investigators may help police, Criminal Investigation Department (CID), Central Bureau of Investigation’s (CBI) Economic offence Wing, Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI), Serious Fraud and Investigating Office (SFIO) etc. authorities in collecting evidences and other relevant materials. For applications of various sections like Sec. 157 of The Code of Criminal Procedure, 1973 (Cr. PC); Sections 17, 18 of the Prevention of Corruption Act, 1988; Sec. 6 of Banker’s Books Evidence Act, 1891; Sec. 78 of Information Technology Act, 2000 etc., the honourable court and police may require the services and skills of forensic accountants for inspection of any books and documents related to accounts. For example, in recently reported Saradha Scam (2013) of West Bengal, SEBI appointed one Bangalore based forensic auditor, Sarat Associates to investigate into the matters.

- **Expert Opinion:** The services of forensic accountants may be used to examine the financial statements and to form opinion. After investigation, forensic investigator may give his expert opinion whether any fraud was committed or anomaly noticed in the reported accounts. Collection of evidences for court proceedings are the most important tasks done by the forensic accountants. These
require as per Sections 45, 118 of Indian Evidence Act, 1872; Sec. 293 of Cr. PC, 1973.

Conclusion
Forensic accountants are currently in great demand with the public need for honesty, fairness and transparency in reporting increasing exponentially. FA has come to the limelight only recently due to rapid increase in frauds and white-collar crimes. The idea of FA is at a nascent stage in India till now. The pioneer Indian accounting regulator, the Institute of Chartered Accountants of India (ICAI) has taken the challenges to start a course on forensic accounting for only its members. It is “Certificate Course on Forensic accounting and Fraud Detection using IT and CAATs”. At present very few academic institutions are offering courses (full time or part time) on forensic accounting. Indian universities are lagging behind in this area as compared to other foreign universities. Some leading organisation such as India forensic (Pune, Maharashtra) has started certificate course in Bank Forensic Accounting (CBFA), Certified Forensic Accounting professional (CFAP). Institute of Chartered Financial Analyst of India (ICFAI) University, Tripura also started to offer a Postgraduate Diploma in Forensic Accounting. Although this is at nascent stage in most of the Indian universities, however many college and universities are providing courses on “Forensic Science”. In the background of increasing levels of frauds and economic irregularities, it is expected that the prospects of forensic accountants are bound to increase substantially in the near future.

References

anandarajsaha@yahoo.com
Planning

Initial Meeting with Client
Consider Terms of the Engagements
Performing Conflict of Interest Check
Identify Investigation Boundaries and Risks
Develop Action Plan & Programme
Selection of Approaches

Established/Standard?
Unique Specific?

Yes
No

Finance, Auditing & Investigation

Sufficient Information?

Yes
No

Expand Boundaries & Scope

Initial Assessment & Review of Information
Collection of Information (Quantitative & Qualitative)
Assessment of Risks and Internal Control
Review of documents and Records
Interviewing key informants (Including experts)
Site/Facility Inspection or visit
Recognise Issues

Yes
No

Sufficient & Appropriate Evidences?

Yes
No

Obtain Evidences for Legal Proceeding
Expand Investigation or Change Methodology
Evaluation of Analysis & Findings

Corrective, Preventive Actions & Follow-up Review

Yes
No

Preparation for Legal Proceeding & Submission in Court (if needed)

Yes
No

Final Forensic Engagement Report
Discussion with Lawyers, Experts, Panel Members
Prepare Draft Report

APPENDIX 1 - FLOW CHART OF FORENSIC/INVESTIGATIVE ACCOUNTING

Documentation of Evidence
WHITE COLLAR CRIME AND ITS PUNISHMENT POLICY

Though some white collar criminals have been awarded exemplary punishments in the U.S., it is observed that nationally and internationally, white collar criminals escape with little punitive action.

In this paper financial crimes are mainly emphasized in white collar crimes. Financial crimes include accounting crime as well as the economic crimes too. Though the paper started by some Indian statistics its thoughts are well applicable to international scenario too. After the conceptual terms used, narrated in Part I, this paper attempts to analyse the problem of punishing the elite criminals which is categorically discussed with the philosophy and problem of punishment in Part II. There is no conclusive statement about the steps to improve the condition but the views of the author are depicted in the form of final observation at the end of the paper.

The main difficulty in reporting about white collar crime in India is, it is not reported in any official Crime Report of India. Accumulating data from different sources shows within a year 2010-11 white collar crime grows by 108 percent where 71 white collar criminals arrested in 2010 which increases up to 148 in 2011. In 2012, Economic Offence Wing (EOW) of Delhi Police arrested more than 163 criminals in 1358 cases and attached property estimated to 300 to 500 crores of rupees. Financial Action Task Force Stated 1704 cases of money laundering are currently under probe in India where the conviction rate is shocking three percent. Only five people convicted over money laundering cases in the last seven years in India. In India the music and film industry is losing around Rs. 1800 crores annually because of piracy. Non-banking financial companies are flourishing with high rate of interest and commissions playing with deposits of Rs. 45,000 crore which is commercially unviable in the long run. The table below shows the figures available in Wikipedia about financial fraud in India which shows that financial crime has exploded from 2009.

It will not be irrelevant to say that Wikipedia is also showing that from 1967 to 2012 among 60 famous ac-

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Scams</th>
<th>Scam value( in Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1948-90</td>
<td>1 scam per year</td>
<td>80 lakhs to 2000 crore</td>
</tr>
<tr>
<td>1991-2007</td>
<td>3 scams per year</td>
<td>2000 crores to 30,000 crore</td>
</tr>
<tr>
<td>2008</td>
<td>7 scams</td>
<td>95 crore to 91,000 crore</td>
</tr>
<tr>
<td>2009</td>
<td>9 scams</td>
<td>18.7 crore to 3,400 crore</td>
</tr>
<tr>
<td>2010</td>
<td>14 scams</td>
<td>15 crore to 1,76,000 crore</td>
</tr>
<tr>
<td>2011</td>
<td>23 scams</td>
<td>2.34 crore to 2,00,000 crore</td>
</tr>
<tr>
<td>2012</td>
<td>23 scams</td>
<td>1200 crore to 10,70,000 crore</td>
</tr>
</tbody>
</table>
counting scams has emerged from USA alone. But the exemplary punishment they awarded to the elite offenders is also to be noted like Mr Raj Rajaratnam of Gal- lon Hedge Fund (serving 11 years imprisonment and $92.8 million as fine), Mr Allen Stanford, a financi- er and cricket magnet (serving life imprisonment) and Mr Rajat Gupta, the insider trader (serving two years imprisonment and a fine of $ 5 million) are a few of them. But still, comparing the enormity and sentencing of white collar crime, a huge disparity is observed nationally and internationally too.

PART I
Concepts of white collar crime
In thirties, American sociologists viewed that criminal behavior was the result of cultural conflicts, the weakening of forces of the privileged upon the less privileged members of a society. Consequential social dis- orientation and the forces between moral and ethical standard led to deviant or antisocial behavior particularly those of lower intelligence or those who are mentally or emotion- ally unstable (Reid, 1982).

Edwin. H. Sutherland felt the weakness of contemporary sociolog- ical theories of crime. He read that the theories are developed by the data of imprisonment or the convic- tion. But these data do not include the professional people, industrial leaders and corporations who ever faced imprisonment or convicted otherwise. Sutherland defined white collar crime in a presidential address to the American Sociological Society in 1939 as a “crime committed by a person of respectability and high social status in the course of his occupation” (Sutherland, 1959). He concluded that such crime existed because of differential association, a process whereby behavior is learned in association with those defining the behavior favourably and in isola- tion from those defining it unfavour- ably. He argued that corporate crime would become self-propagating as corporate officers define their own limits of acceptable behavior.

Sutherland died in 1950. But the criticism against the concept of white collar crime continues in a rapid and robust way. Criminologists and other sector of sociologists did not spare him as he developed the idea basically from the applied field of study. Geiss (1962) criticized white collar crime by saying that Sutherland differentiates between corporations and the actions of corporation ex- ecutive and management personnel. Gibbon (1977) did not attach the social status of the offender, rather he emphasized on the violation of the legal rules constructed to govern the business affairs and occupational practices where such violations are continued. Clinard and Quinney (1967) along with Bequai (1977) raised the point that the criminal activity should be attached with a legal business or occupation which includes the elements of fraud.

Apart from the deviation in defi- nition criminologists criticized heavily by saying that the crime not covered by the criminal laws cannot be called as a crime (Tappan, 1977) and they refuted to discuss about its definition which according to them “sterile definitional disputes” (Albert, 1977). The sociological understanding was not same as the definition of Sutherland’s. In prosecution, criminal intent or mens rea is necessary which was not accepted by Prof. Sutherland who suggests the exception to the criminal intent and presumption of innocence is increasing in numbers. His process of distinction not on the basis of ‘intent’ or ‘act’ but according to the ‘status of the accused’ was high- ly criticized. In turn, Sutherland also deprived the corporate individuals of presumption of innocence and al- ways gets the preferential treatments. Even some sociologists (Clinard & Yeager, 1980) finding Sutherland’s very loose definition “too restrictive” and have dropped the class of the off-ender as a relevant element.

Sociologists, while studying the criminology, tend to assume deter- minants of illicit behavior. Strain Theory of Donald Gressey (1953) with other organizational theories view that social problems coming from such illicit behavior result from the failure of institutions, families and other structures to provide for the functional and affective needs of

WHITE COLLAR CRIME IS AN INCREASING MALAISE THROUGHOUT THE GLOBE. ITS ENORMOUS SIZE SUGGESTS THAT THERE IS A STANDING RELUCTANCE OF HANDLING THE ISSUES SERIOUSLY
individuals. These ineffective needs create a sense of alienation or anomie, which grows through a variety of actions harmful to the individual or others. The gap between socially approved means and ends creates antagonism which results to anxiety and thus creates strain in reaching to societal goals from present status. Konty (2005) has again argued that individuals are aligned with the values regarding self-interest than with social. Self interest becomes criminogenic only in the absence of social interest to prevent the pursuit of self interested goals “by any means necessary”. Colvin et al (2002) claim, excessive strain may be a causal factor that leads a person to transfer his group identification in a deviant culture, thus prompting criminality.

Street crime vs. white collar crime
White collar crime has a specific difference with street crime or blue collar crime. Table 1 has been prepared to differentiate the same in an easy manner:

- Additionally, Heath (2008) has observed that white collar crime involves some form of social deviance and represents a breakdown in social order. His version was that the white collar criminals tend to apply techniques of neutralization used by offenders to deny their criminality.

Fraud, corruption and white collar crime
Though white collar crime denotes an all encompassing definition yet it has some differences with corporate fraud and corruption. Fraud normally connotes the interest out of an asset through deception and willful neglect, whereas corruptions the misuse of trusted authority. Accounting frauds are basically internal frauds which are cash and non-cash assets misappropriation and preparation of financial and non-financial fraudulent statement. External frauds are related with customer, vendor, investment, bankruptcy etc. Employee frauds may be of external or internal in nature. Some statistics from a survey will help us to predict the enormity of corruptions, common in both internal and external frauds. Survey on fraud in India, 2010 says 37% of it is paid as bribery to get routine administrative approvals from government agencies, 31% to win or retain business, 22% is to influence people to delivery favourable treatment and 10% to use unauthorise resources. The World Bank aggregates fraud globally to over 1 trillion USD per annum. Some surveys put the companies affected by fraud is 85% and it is growing. Other research estimates that organizations lose as much as 7% of their annual revenues to fraud (CIMA).

Cost of white collar crime
The cost of crime is mainly dealt with economic cost of crime. That economic cost, in case of white collar crime is roughly measured (Shank and Klause, 1984). As Levi (1987) pointed out major fraud against businesses may not be reported because they are embarrassing to the business. Moreover, there is no uniformity in measurement after the crime is identified or reported. For example, a relatively small bribe to an inspector may collapse a building. So what will be attributed as the cost of the crime? Stock stolen may be valued either in the wholesale price or in retail value or in a different value like replacement one is not determined uniformly.

The cost of white collar crime may be direct, indirect or physical in nature. Direct costs are those which are specifically identified from such criminal activities. In case of illegal transfer of assets from one party to another increases the material well being of one party at the expense of another is typically signify the victim’s loss. Overall economic crime has been estimated as high as $1 trillion annually (Schlegel, 2000). Greider (2002) has estimated the loss suffered by the ordinary workers and the employees’ runs up to $50 billion in case of Enron alone.
Besides direct economic cost of crime there are certain indirect costs of crime which are also difficult to measure accurately. They are higher taxes, increased costs of goods and services and higher insurance rates (Shenk and Klaus, 1984). The gap between fines levied and the restitution demanded in case of loan and savings fraud is also to be accounted for at the time measuring the indirect cost of crime (Pizzo and Muolo, 1993). Residual economic costs like loss of investors’ confidence due to insider trading is not negligible in calculating the indirect cost of white collar crime. Physical cost of crime is related to personal injury or loss of life. For example, adulterated food grains supplied, spurious medicine sold, wrong chemical treatment of effluents may cause a holocaust. Other social cost which created loss of trust and alienation a group from the mass is difficult to measure though it is prevalent.

PART II
Punishment philosophy and white collar crime
Punishment is usually justified on the principles of retribution, incapacitation, deterrence, rehabilitation and/or restoration. Retribution is the punishment judged on the principles of revenge and retribution. This is the oldest form of judgment where the idea “eye for an eye” or “let the punishment fit the crime” was the primary basis for criminal sentencing. The principle of incapacitation decreases the physical capacity of a person to commit criminal or deviant act. The most common form of incapacitation is incarceration or imprisonment which is fructified in association with other form of programmes like deterrence and rehabilitation. As the degree of criminal content in the white collar crime is not properly established often the question of incapacitation is diluted. Deterrence is another way to get the punishment rationality. It is about the relationship between sanctions and human behavior. Punishment has a greater impact on misconduct if it is severe, certain and swift in application. Effectively, few months (fifteen or sixteen) of incarceration damage the reputation to that extent which is recovered by changing the place and nature of business.

The objective of the rehabilitation is to restore a convicted offender to a constructive place in society through some combination of treatment, education and training. Restorative justice is the method applied to the offender where both the offender and the community is integrated and institutionalized. The objective of such justice is to restore both the individual parties and their community’s sense of wholeness. Punishment is deprivation of freedom imposed by the authority. Punishment is an objectively judged loss or burden imposed on a convicted offender. But the severity of punishment must be proportional to the gravity of the offense. Proportionate punishment is the output of four institutional inputs like law, police, courts and prisons. The quantum of criminal sentence is determined through social coordination.

The proportionality principle works with two central aspects – i) the ordinal proportionality of a punishment refers to its magnitude in relation to other crimes and punishments and ii) cardinal proportionality maintained when the link between the ordinal scales are matched and produces a ‘reasonable’ punishment magnitude. It consists of three related steps. First, society needs a ranking system to evaluate the severity of the crime. The relevant margin to rank a crime should be defined and accepted. Second, a similar ranking should be developed in punishment techniques and last, those punishments must also be ranked by severity.

Problems in punishment
Two issues are contentious in sentencing the white collar criminals. One is the right way of calculating the loss and the other is the domination of the class interest. There is hardly any real guidance for calculating loss by white collar crime. So far the guidelines (2010 Federal Sentencing Guidelines of US) available the loss will be defined as “the greater of actual loss or intended loss”. The actual loss is the foreseeable harm and the intended is the harm which the offender intended to do.

Class interest is protecting the white collar criminals. As the self-interest motivates a person psychologically to adopt unethical means, the class interest creates an environment to dissolve the issue as a natural social loss. Class is a theoretical or formal relationship among individuals. Out of similar class situation, individuals come to act similarly. They develop a mutual dependence, a community and a shared interest. From this common interest classes are formed and their interest engages them in a struggle with the opposite class. The judiciary and the white collar criminals are of same class in most of the cases.

Production relation and its location in the social structure determine the class interest. Common struggle shows the common consciousness about their common fate. It is then, that individuals become part of a cohesive class that consciously articulates their common interest. In case of protecting the criminal elites the role of legal personalities are very
much conscious about their class. Self conscious classes arise only if and when there exists a convergence of “ideal” and “material” interest that is the combination of economic and political demands with moral and ideological quests. More specifically, there is a status consciousness among the elites be it among the criminals or non-criminals. Class groups are not communities where status groups are. Status is defined as the likelihood that life chances are determined by social honour or prestige. Intention of accumulating wealth is the common wish of the criminals and the administrators belonging to the likely class. Unfair means adopted justifies the ends which is a common interest of the community. Wealth plays an important role to differentiate from one status to other. The members of the community will make themselves organized to retain their hegemony over the whole society (Luckas, 1967). Finally class hegemony is established to reduce the necessary prosecution and punishment and finds a suitable way to get out of the clutch from the penal provisions. The insidious effect of white collar crime and the leeway throws signals to the criminals and further offender that the impact of crime is not important and the economic benefit and protection of class interest increase the recidivism which ultimately ignores the huge social loss caused by it. There should be some unbailable statute to avoid the class dominated prosecutorial creativity.

Final observations
White collar crime is an increasing malaise throughout the globe. Its enormous size suggests that there is a standing reluctance of handling the issues seriously. Proportional punishment with rapidity in sentencing is still a coveted step towards white collar crime. The interpreters and the executors of legal machineries mostly belong to the same class with the elite criminals. So the influence of the community is unavoidable. Judging by the gravity of the problem, it is necessary to include such crimes with proper emphasis in the penal codes. An improper way of loss calculation and the protection of class interest defy the punishment philosophies when applied. Eco-political issues like injecting huge liquid money and motivated handling of it creates an environment congenial to white collar crime. In case of financial crime in a large organization auditor’s role is criticized for emphasizing more on consulting activities than the auditing one. It helps the perpetrators to get the spurious data approved. Moreover, there is no social protection for the whistleblowers. Fear of loss of jobs and the future acceptability of the whistleblowers in the industry prevents the white collar crime to come to the surface. Without the proper unveiling of the issues the regulatory legal measures become inoperative and thus crimes continue to siphon capital out of the organization keeping the investors at bay. So, to control the effect of white collar crimes, a multifaceted approach is needed from the economic (money supply), legal (new provisions), political (governments’ vigilance) and the social (class bias control) aspects of a country. The ethical way of handling the creativity may be the only way to stop the germination of the white collar crime at the basic level.

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The Editor
Directorate of Research & Journal
The Institute of Cost Accountants of India
CMA Bhawan, 4th Floor, 84, Harish Mukherjee Road, Kolkata-700 025, Indi.
Phone: +91-33-2454-0086/0087/0184
Fax: +91-33-2454-0063
Email: research.bulletin@icmai.in; Website: www.icmai.in

radhanathp@yahoo.com
WHY BANKS SHOULD GO FOR FORENSIC ACCOUNTING – NEEDS AND APPLICABILITY

Banks are facing a gradually difficult scenario with the increase in scams. With more regulatory inspections, banks are under pressure to execute best practices. In such a situation, forensic accounting and auditing is therefore not an option but the need of the hour.

FORENSIC accounting is an attempt to sniff out fraudulent dealings from the financial records of banks and companies. Kautilya was the first economist who explicitly recognised the need of forensic accountants. The opportunities for the forensic accountants are growing at the rapid speed in recent years. Forensic accounting is still emerging in India.

The Reserve Bank of India has made compulsory forensic accounting and audit for banks in India. Still banks are cautious in approaching certified scams and fraud examiners, and are mostly dependent on inter-
nal auditors. In the Indian circumstances the forensic accountants are the most required in the wake up of the rising frauds and scams. After the Satyam scam, forensic examiners are much in demand as many companies want to recognise what could be the early warning signals of a Satyam kind of fraud in other Indian companies.

Objectives: This paper aims at examining the present status of application of forensic accounting and relevance in curbing scams and frauds in banks operating in India.

Research methodology: The article is based on secondary data from various available resources like reports of the RBI, reports and documents of India forensic on bank frauds, journals, books and web materials related to the study. Simple tabular analysis and graphical presentation has been used for analysis.

Forensic accounting: A brief outline
The inclusion of accounting, auditing and investigative expertises are the speciality known as ‘Forensic Accounting’. ‘Forensic Accounting is the application of accounting principles, theories and discipline to facts or hypotheses at issues in a legal dispute and encompasses every branch of accounting knowledge’ according to the American Institute of Certified Public Accountants (AICPA). Likewise, forensic accounting provides an accounting investigation suitable to the court which will form the basis for discussion, debate and ultimately dispute resolution.

According to the Journal of Forensic Accounting, “Forensic accounting is sufficiently thorough and complete so that an accountant, in his/her considered independent professional judgment, can deliver a find-
ing as to accounts, inventories, or the presentation thereof that is of such quality that it would be sustainable in some adversarial legal proceeding, or within some judicial or administrative review.” There are two major components of Forensic accounting: Litigation services—recognises the role of an accountant as an expert consultant and Investigative services—requires the use of forensic accountants’ skills and may require courtroom testimony.

Needs and applicability of forensic accounting in banks

Forensic accounting has emerged as a valuable means to identify, classify and trail banking transactions that were improperly griped or authenticate that financial dealings were proper. Moreover, the sensitive temperament of the accounting for banks and other financial institutions, corporations perform composite banking activities that might entail misdeeds. Thus forensic accounting helps to preserve the truthfulness of banking transactions and financial statements.

Needs of Forensic Accounting in Banking Transactions: Forensic accounting is quite imperative in the banking business because at one side, forensic accounting philosophies are requested because there is doubt of happening of probable losses or unlawful activities. At another side, forensic accounting practices are needed to optimistically validate that all banking activities in fact performed correctly.

In all other businesses that have inventory, products, patents, and most other assets are converted to a money value for accounting purposes. In the banking industry, their inventories are money. On one point, it makes the accounting easier since values of widgets and other things need not be converted to money. On the other hand, accounting adjustments like revaluing inventory are very difficult. Consequently, inaccuracy whether open errors or planned manipulations, always absorb actual money, not paper representations. That is why it is imperative for all banks to adopt and go with the practices of forensic accounting.

Some statistics on scams and frauds in the Indian banking sector: Fraud can be defined as any behaviour by which one person aims to get an unfair advantage over another. A definition of fraud was recommended in the context of electronic banking in the Report of RBI Working Group on Information Security, Electronic Banking, Technology Risk Management and Cyber Frauds, as “a deliberate act of omission or commission by any person, carried out in the course of a banking transaction or in the books of accounts maintained manually or under computer system in banks, resulting into wrongful gain to any person for a temporary period or otherwise, with or without any monetary loss to the bank”. A year wise fraud cases reported by the

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Cases</th>
<th>Amount of Frauds</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009-10</td>
<td>24791</td>
<td>2037.81</td>
</tr>
<tr>
<td>2010-11</td>
<td>19827</td>
<td>3832.08</td>
</tr>
<tr>
<td>2011-12</td>
<td>14735</td>
<td>4491.54</td>
</tr>
<tr>
<td>2012-13</td>
<td>13293</td>
<td>8646.00</td>
</tr>
<tr>
<td>Total</td>
<td>72646</td>
<td>19007.43</td>
</tr>
</tbody>
</table>

Source: Speech of Dr. K. C. Chakrabarty, Deputy Governor, Reserve Bank of India on July 26

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**Table 1: Year-wise number and amount of fraud cases in the banking sector**

<table>
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**Figure 1: Yearwise Fraud Cases in Banks**

![Graph showing year wise fraud cases in banks](image-url)

- **Number of Cases in absolute terms**
- **Amount of frauds in Rs. Crores**

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banking sector with the amount involved is given in Table 1.

Table 1 and Figure 1 show that the number of frauds has declined from 24791 cases in 2009-10 to 13293 cases in 2012-13, while the amount involved has increased from Rs. 2037.81 crores to Rs. 8646.00 crore.

Additionally, bank groupwise study of frauds discloses, while the private sector and the foreign bank accounted for a majority of frauds by number (82.47%), while in case of total amount of frauds involved, the public sector banks accounted for nearly 83% of total amount involved in all reported fraud cases can be seen from Table 2.

Broadly, the frauds reported by banks can be divided into two main sub groups: technology and advances related frauds. A closer assessment of Table 3 below demonstrates that comparatively advances related frauds of more than Rs. 1 crore have increased over the last four years in case of nationalised banks, while decreased in case of private and foreign banks operating in country.

Considerably larger amount of technology related frauds by amount involved in frauds shows an increasing trend as per Table 4. Banks are increasingly pushing customers to adopt new service delivery proposals like mobile phones, internet and social media for improved efficiency and cost savings. Data suggests that even fraudsters are planning newer ways of committing frauds and scams by taking advantages of the loopholes in technology systems and processes conducted by banks.

From Graph 4, it is evident that the actual amount involved in the occurrence of cyber frauds are low in nationalised banks compared to private and foreign banks.

**Applicability of Forensic Ac-**

<table>
<thead>
<tr>
<th>Bank Group</th>
<th>Fraud Cases</th>
<th>Fraud Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>In absolute terms</td>
<td>In Percentage</td>
<td>Rs in. Crores</td>
</tr>
<tr>
<td>Nationalised Banks including SBI Group</td>
<td>29653</td>
<td>17.53</td>
</tr>
<tr>
<td>Private Sector Banks</td>
<td>93331</td>
<td>55.16</td>
</tr>
<tr>
<td>Foreign Banks</td>
<td>46206</td>
<td>27.31</td>
</tr>
<tr>
<td>Total</td>
<td>169190</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source: Speech of Dr. K. C. Chakrabarty, Deputy Governor, Reserve Bank of India on July 26, 2013.
counting in Banks: Forensic accounting delivers many benefits in banking activities to expose problems or verify accuracy and true symbols of operations. Instead of only verifying books and records in balance, special testing and investigative procedures can target probable misdeeds that cannot be normally exposed by classic bank auditing process. Reserve Bank of India expressed serious distress on the worsening quality of the resources. Reserve Bank of India promotes that from the operational point of view, banks may take certain measures to ensure effective quick investigation, monitoring and follow up of frauds. The significant recommendations of Reserve Bank of India are to improve the quality of the fraud investigations.

RBI further says that fraud investigation requires capability in ‘forensic accounting and audit’ and also transactional expertise. In this regard, banks may take immediate steps to identify staff with proper aptitude and provide necessary training to them in forensic accounting/audit so that only such skilled staffs are organised for investigation of large value frauds. To curb the bank frauds the unique programmes offered by India forensic. These programmes are probably dedicated towards banking frauds. In such circumstances, forensic accounting is a precious method in examining, and preventing frauds in banks that were improperly handled. It is a fact that complex banking activities involve irregularities. Thus forensic accounting helps to

AFTER THE SATYAM SCAM, FORENSIC EXAMINERS ARE MUCH IN DEMAND AS MANY COMPANIES WANT TO RECOGNISE WHAT COULD BE THE EARLY WARNING SIGNALS OF A SATYAM KIND OF FRAUD IN OTHER INDIAN COMPANIES

<table>
<thead>
<tr>
<th>Year</th>
<th>Nationalised Banks including SBI Group</th>
<th>Private Sector Banks</th>
<th>Foreign Banks</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009-10</td>
<td>1.82</td>
<td>34.68</td>
<td>26.88</td>
<td>63.38</td>
</tr>
<tr>
<td>2010-11</td>
<td>3.39</td>
<td>21.87</td>
<td>14.77</td>
<td>40.03</td>
</tr>
<tr>
<td>2011-12</td>
<td>7.26</td>
<td>16.6</td>
<td>14.60</td>
<td>38.46</td>
</tr>
<tr>
<td>2012-13</td>
<td>9.85</td>
<td>35.06</td>
<td>22.45</td>
<td>67.36</td>
</tr>
<tr>
<td>Total</td>
<td>22.32</td>
<td>108.21</td>
<td>78.7</td>
<td>209.23</td>
</tr>
</tbody>
</table>

Source: Speech of Dr. K. C. Chakrabarty, Deputy Governor, Reserve Bank of India on July 26, 2013.
Conclusion
The impact of frauds on banks in monetary transactions are more significant as their operations involve transaction of funds. Side by side, frauds can have a potentially weakening effect on self-assurance in the banking system and may damage the stability of the economy.

They can bring down banks; undermine the Reserve Bank of India’s decisions, etc. The increase in amount involved is largely attributable to the few large value advances and technology related frauds that have come to light in recent years which pose a significant challenge to all stakeholders in the banking industry. Banks are facing a gradually difficult scenario with increased scams fraudulent incidents and thereby directly affecting outcome and increased cost of compliance. With increased regulatory inspections, banks are under pressure to execute best practices. In such a situation, forensic accounting and auditing is therefore not an option but the need of the hour.

References
5. Dr. K. C. Chakrabarty, Deputy Governor, Reserve Bank of India on July 26, 2013 during the National Conference on Financial Fraud organized by ASSOCHAM at New Delhi

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Figure 4: Bankwise Technology related Frauds (in Rs. crore)

THE IMPACT OF FRAUDS ON BANKS IN MONETARY TRANSACTIONS ARE MORE SIGNIFICANT AS THEIR OPERATIONS INVOLVE TRANSACTION OF FUNDS. SIDE BY SIDE, FRAUDS CAN HAVE A POTENTIALLY WEAKENING EFFECT ON SELF-ASSURANCE IN THE BANKING SYSTEM AND MAY DAMAGE THE STABILITY OF THE ECONOMY

pooja.bhu091@gmail.com
THE global scenario of business is in drastic changes at larger level due to liberalization, privatization and globalization. This change leads the business people to compete each other that tend to squeeze the margin of their business. Due to this cut-throat competition, the business units are forced to carry out their activities at larger level. These large numbers of transaction with large number of peoples results a larger number of outputs. This hectic and condensed mode activity gives birth to the white collar crimes, scandals and frauds at all levels. The plight of the elevating corporate scandals, frauds, crimes are becoming depressingly mundane. These epidemics hurt the country’s economy. The corporate crimes, frauds, scandals are the problematic and the vulnerable suffers due to these ills. These ills should be traced and immediate steps should be taken for the eliminations and avoidance.

When a crime is occurred, the law directs the officials of forensic department to see the scene of crime and to trace the persons involved by identifying the finger prints etc., to bring out such criminals. Like that the crimes related to the business can also be traced and identified through proper investigations and inspections. In commercial term, this process is named as Forensic Accounting. It was realized that only a small percentage of losses from the above are recovered, mostly it is committed by senior management and executives. Greed is identified as one of the main motivation for committing frauds and it is not restricted to a particular sector or country. It is also identified that the prevalence of fraud is increasing in emerging markets. This conceptual paper attempts to place discussion on the concept, need and the role of forensic accounting in solving problems of business by way of business frauds, crimes, and scandals etc. It also tends to highlight the elimination strategies of corporate crimes.

Concept of Forensic Accounting

As per the Indian Business Law, the business firms are compelled to prepare the books of accounts. It is supposed to be an authenticate record for the transactions that took place in the business. In the company’s context, it is necessary to get approval for such records in the annual general meeting before it comes as a published record. There is great scope for forensic accounting during mergers, amalgamations and acquisitions, tax investigations, economic crime investigations, all kind of civil litigation support, specialized audits, and even in terrorist investigations.
The above mechanism needs cleverness and professionalism calling for extreme good faith, integrity and transparency. Any misleading or shortfall of any of these is likely to be taken seriously. Any slippage in this regard, has pulled the authorities and professional accounting bodies into a new perception that goes beyond the statutory audit report of the accounts of the business firms and in some ways it emphasis on the corporate governance which, according to critics, are no better than lime wash of the affairs of the business firms.

The vexing problems of the corporate are not only that even the occupational frauds committed by the employees usually involves the theft of assets and embezzlement that has been the most often committed frauds for the last three decades and the ever changing economic, sociological and technological environment as well as the increasing social and financial terrorism have led to the business firms to trace and identify the malpractices functioning within the organizations. The financial frauds have become a common phenomenon collapsing many business entities and weakening the economy of such business firm in particular and nation as a whole. The corporate ills include an array of irregularities and illegal activities characterized by international deceptions led for the forensic accounting internationally.

As per Webster’s dictionary, “belonging to, used in or suitable to courts of judicature or to the public discussion and debate” stands as the meaning of forensic. In this context forensic is “suitable for use in a court of law”, and it is to that standard and potential outcome that the persons concerned generally have to work. In general, the term forensic accounting or financial forensics is the specialty practices are of accountancy that describes engagements that result from actual or anticipated disputes or litigation. The integration of accounting, auditing and investigation skills yield the specialty is known as forensic accounting. It provides an accounting analysis that is suitable to the court that will form the basis of discussion, debate and ultimately dispute resolution. It encompasses both litigation support and investigation accounting. The concept of forensic accounting is different from old debit and credit accounting as it provides and accounting analysis that is suitable to the organization that will help in resolving the disputes that arise in the organization. In a nutshell, it is possible to say that forensic accounting is for proactive checkups.

**Need for Forensic Accounting**

The need for forensic accounting is due to failure of audit systems in the business firms as the organizational internal audit and the other regulatory procedures failed to trace the errors in the managerial system. In U.S.A. a nationwide study was conducted revealed around 39% of the organizations have considered the need for forensic accounting, 28 % said that they already sought help, 18 % said that there is no requirement of assistance and 15 % were unsure of whom or where they should turn to such help. It was also estimated that the typical organization losses up to 5% of its annual revenue to fraud. So many experts indicated the stock market woes and sluggish economy that have forced organizations to take harder look at their numbers and seek help in determining the reasons for financial losses. Most of the experts elaborated and said, forensic accounting is to be heavily employed because of company downsizing, noting that some management and control layers within the firms have been eliminated causing fraudulent activities to go unnoticed. Unethical management in large concerns irrespective of levels of management of the concerns leads the help of forensic accounting. Internal audit and audit committees as a part of the management function neither could
nor throw light on different facts and other hidden aspects because,
a. Rotation of statutory auditors touches a part of the problem while it requires emphasis but it adversely needs longer duration. The method of appointing statutory auditors itself not a fool proof as its brooks collusion and lobbying.
b. The certificates of the auditors are hardly scrutinized carefully, especially when the reports are unclean and unqualified.
c. The internal auditors can surely detect what was happened but they are hardly in a position to initiate proper action in proper time.

The nature of the beast-fraud is not an accident. It is willful. It is deliberate deception committed for dishonest gain. When the fraudulent activities continues in the business that will show a red alert signal and lead that particular organization is going to face its doldrums. It is noticed that fraudulent activities are spoiling at larger level globally. Those fraudulent activities that show red signals are Statement fraud and fraudulent practices in the corporate entity, loan fraud in and between financial intermediaries, Cash fraud- Skimming, Cheque fraud, Insurance fraud, Employer fraud in insurance, Medical fraud, Bankruptcy fraud, Tax fraud, Securities fraud, Pyramid schemes fraud, Money laundering, and Cyber fraud like unauthorized access of private area in internet, hacking, theft of e-forms, email bombing, data dilding, salami attacks, denial of service attack, virus or worm attacks, logic bombs, trojan attack, virus or worm attacks, logic bombs, trojan attacks.

**Anti-fraud strategy**

Effective anti-fraud strategy has four main components. They are closely interlinked and they play a significant role in curbing and combating fraud, both individually and as a group. Fraud detection acts as a deterrent by sending a message to likely fraudsters that the organization is actively fighting against fraud and those procedures are in place to identify any illegal activity occurred. The chance of being caught red handed will often persuade a potential perpetrator not to commit a fraud. Complementary detection controls should also be in a place to counter the fact that the preventions controls may be insufficient in some cases. It is essential to recognize that an ounce of prevention is better than a pound of cure. The anti-fraud strategy forms a triangular shape to protect the business from ills as given below;

![Triangular Shape Diagram]

**Fraud prevention methods:** Most of the people commit fraud and only a minority of the greedy and needy do so. Adoption of methods may decrease motive, restrict opportunity and limit the ability to do. In case of deliberate acts of fraud, the aim of preventive measures is to reduce opportunity and remove temptations from potential offenders. Prevention techniques includes the introduction of policies and procedures that controls and activities such as training and fraud awareness to stop from occurrence. It is not possible to curb the frauds at 100%, but it may have a chance to reduce the level of occurrence of such ills. This can be made with the following methods.

1. Creating and developing sound ethical culture with code of ethics or an anti-fraud policy by embedding the ethical behavior needs within the culture of business firms.
2. Providing of fraud risk training and awareness to peoples through formal education and training sessions as a part of the overall risk management strategy. Main focus should be given to those with the role in the prevention to scan the managers and staff functioning in high risk areas, such as procurement and payment of bills.
3. Formation of sound internal control system comprising with all those policies and procedures that taken together, support a business firm’s effective and efficient operations.
4. Selection of qualified, experienced, potential and suitable persons through screening during pre-employment is one of the best ways for preventing frauds.

**Fraud Detection methods:** It is already said that the preventive steps cannot curb the menace of fraud at 100%. It will ensure the occurrences of such frauds in timely manner. Fraud detection strategy should involve the use of analytical and other procedures to highlight anomalies, and the introduction of reporting mechanisms that provide for communication of suspected fraudulent activities. The key elements of a comprehensive fraud detection system would include exception reporting, data mining, trend analysis and ongoing risk assessment. The methods of detection of frauds are Internal and external tip-off, Whistle blowing, Law enforcement investiga-
Establishing an Effective Reporting Mechanism is one of the Key Elements for Fraud Prevention and Detection. The challenge for management is to encourage those people with straightforwardness to reveal such fraudulent activities. An examination of evidence regarding an assertion to determine its correspondence to established criteria carried out in a manner suitable to the court.

Techniques and Tools of Forensic Audit
1. Benchmarking – comparing one financial period with another or the performance of one cost centre, or business unit, with another, overall business performance with its standards defined.
2. Ratio analysis – used to identify any abnormal trends and changes.
3. System analysis – to examine the systems in place and identifying any weaknesses that could be opportunities for the fraudsters.
4. Specialist software- like audit tools for data matching analysis can prove very useful.
5. Exception reporting – that generates automatic reports that unchangeable for results that fall outside of predetermined threshold values, enabling immediate identification of results deviating from the norms.

Conclusion
The need for fraud prevention is necessary in every company, but the degree of protection varies based upon the size of the company. At this point, it is essential to highlight that forensic accounting eliminates the business ills. Forensic accounting is a fastest growing area of accounting now that enables in thinking and enhancing the chances of success in business life, so it is working in most major accounting firms and going to become a great source for the business firms to surmount all the problems. Hence there is a great scope for forensic accounting in investigation during merger, amalgamation and acquisition, tax investigations, economic crime investigations, all kind of civil litigation supports, specialized audits, and even in terrorist investigations. This is the right time to adopt and adhere strictly the forensic accounting at all the levels of public, government and corporation accounting as an accounting tool to prevent and cure the entities from the financial and other ills.

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jeyasuresh.suresh@yahoo.co.in
VIEWING THROUGH THE FORENSIC LENS

Internal fraud is a cancer-like situation that needs to be nipped in the bud and got rid of at the earliest opportunity. Investigation determines whether the criminal activities are those of an insider and examine the action that must be taken.

CA R S Raghavan
Banking and Financial Analyst, Bangalore
former AGM, Vijaya Bank
The word “Forensic” means “suitable for a court of law”. The Forensic Accountant has to look beyond what the number reveals and comprehend the underlying circumstances with analytical mindset. Accountant’s job involves basically an intelligent work and the job of Forensic Accounting is the job of intelligent Accountant. A simple definition of Forensic Audit is the converse of the basic definition of Auditor, which is “Auditor should be a watch dog and not the bloodhound”. Forensic Auditor is the bloodhound trying to sniff out fraud and criminal financial transactions through documentary evidence. While the external or statutory auditors look for numbers, the forensic auditors look beyond the numbers, vigilantly going beyond the routine assignment on accounting, auditing, inspection, etc.

The purpose of Forensic Accounting is to reduce the “Fraud Risk”, the likelihood of fraud remaining undetected in business entities, as the statutory audit mechanism may not throw light on all the financial frauds taken place in the business operation, during the entire period covered in the audit. With the advent of technology and globalization of financial transaction, number of white collar crimes has exponentially grown and auditing requirements need to be sharpened with forensic techniques to establish evidences to book the gentle & soft financial criminal.

With Liberalization, Privatization and Globalization (LPG) making in-roads into the financial world, modern accounting appears to be no longer confined to book keeping which is merely the recording of statement of financial affairs of an entity. Various types of accounting such as cost accounting, management accounting, inflationary accounting, financial accounting, etc are already in place. But, of late, “Forensic Accounting” has gained prominence. In the financial world, nothing ends but something begins anew, sprung from the seeds planted earlier, mainly owing to serious irregularities in the financial deals.

Initially, no assumptions and presumptions can be made while taking up the job of Forensic Auditor as that may serve as a screen clouding the reality. Accounting and Annual Report are the language of business activities through which performance communication is made. Forensic Accounting and Audit awareness enhances credibility of the auditing profession as well.

Forensic Accounting is the integration of accounting, auditing & investigative skills with a view to obtain a particular result to withstand the legal scrutiny & administrative proceedings against the person who has committed the fraud. A Forensic Accountant gathers lot of information and undertakes detailed analysis that is capable of producing as irrefutable evidence in a Court of Law.

It is the practice of utilizing the expertise of auditing, knowledge of accounting, aptitude of analytical and investigative skills to assist in legal matters and application of the same to serve as evidence of inappropriate economic / financial transaction and reporting suitable to the purpose of establishing proper accountability. Days are not far off to engage Forensic Accounting experts to carry out special and specific assignments on irregularities in financial and business operations. This is evidenced in the recent appointment of Forensic Auditor in various financial irregularities of otherwise reputed business and banking entities.

As a fall out of LPG, the profession of Forensic Accounting has been growing in stature. Huge expenses incurred in technology advancement, bulk purchases, software procurement, financial products, greed of the general populace, etc., provide ample opportunities for the forensic accountant to tread on and furrow for the wrong doings. The functions of forensic accountant are akin to the blind man entering a dark room during midnight in search of a black hat that was not there, as he has to go beyond the figures and statements so as to unearth the fact.

Forensic lens

Any disagreement between what has happened and what should happen financially that involve action from the Court of Law is a field area for forensic exercise and the forensic lens should be polished for a better view. Forensic Audit exercise basically involves investigation into the financial dealings of a commercial entity, more specifically in the context of alleged fraud and prima-facie serious financial irregularities, so as to find out the facts. The very important aspect of the Forensic Audit is to gather unassailable evidence to support the findings as it should withstand the admissibility in a court of law.

Forensic Audit can be requisitioned by the business entity itself to unearth any wrongdoing. In the process, the auditor needs to carry out a lot of background checks on both the input for and output from
the commercial entity. All major financial outstanding amount shown in Balance Sheet and the closing balances drawn in the Profit and Loss Statement needs to be thoroughly probed into and their veracity and genuineness established beyond doubt to pass through the Forensic Audit. At times, the auditor may have to extend his network to a number of non-financial areas such as e-mails, telephones, online banking transactions, and interview with bankers, suppliers, customers, management and other employees also.

The parties involved in possible litigation would be able to clearly understand their own position and may be willing to settle the issue rather than proceed with litigation, which is time consuming and costly. Forensic Accountant / Auditor should question the seemingly unimportant and benign transaction / document and check for the inconsistencies and discrepancies, if any, that may not be noticeable for naked eyes. When the dispute graduates to presence in courts, the Forensic Accountant, as an expert, may have to testify the witness to assist the court in its deliberations and in deciding the issue, besides forming a professional opinion by accessing all the relevant documents.

Indian scenario

Forensic Accounting professional is more a private investigator with sixth or for that matter seventh sense than the stereotypic book keep accountant. In fact as the business environment changed from paper based to electronic chip based, the demand from Forensic Accountant has enlarged to system based. He should and is expected to possess sound Information Technology knowledge to supplement the expertise in the domain of finance and accounts. Recently, the financial irregularities unearthed in Bhushan Steels, Dena Bank and Syndicate Bank resulted in the requisitioning the expert services of Forensic Auditor to go into the consortium bank loan utilization by corporate and the misappropriation funds in the banks concerned. These incidents revolved around the Bulk Advances and Bulk Deposits at the bank level.

With the kind of financial scams and frauds happening in India, thanks to opening up of economy through the LPG route, services of chartered accountants would be greatly used. One can name any common commodity or product, it is true that someone or the other is connected to a scam associated with the same, be it stamp paper, fodder, telecom, securities, public distribution system, cement, banking, mining, etc. The political administration of governing the state finances, legal structure and financial systems in India demands the very special breed of Forensic Accountants. Both Central Bureau of Investigation (CBI) and Criminal Investigation Department (CID) personnel are involved in one way or the other in forensic accounting or forensic auditing work.

The formation of Serious Fraud Investigation Office (SFIO) in 2003, after the Joint Parliamentary Committee’s probe into Ketan Parekh scam involving one of the public sector banks is a stepping stone for the recognition being accorded to forensic accounting concepts. It is functioning under the umbrella of Companies Act that was revised recently after more than five decades.

When the loss of financial fraud is over Rs 50 lakhs or it affects more than 5000 people, it enters the domain of SFIO. On a report from Registrar of Companies investigations are ordered when cases are referred to SIFO by the Government.

In the recent episode of M/s Bhushan Steels, the consortium banks - a large one with exposure of Rs 40,000/- cr. ordered, inter-alia, for the conduct of Forensic Audit so as to verify about usage of bank loans for the right and approved purposes, without involvement of fund diversion, owing to the fall out of the arrest of one of the lenders’ chief carrying the allegation of bribery. Formal professional accounting knowledge and skills coupled with the ability to pay attention to the minutest details to facilitate an in-depth analysis and interpretation of data are pre-requisites for taking the profession to greater heights.

The revised Companies Act 2013 and cyber-crime involving financial transactions, unearthing of black money, bribery & anti-corruption cases involving higher up personalities provide ample opportunities in the areas of Forensic Audit. Corporates engage Forensic Accounting experts to carry out special and specific assignments on irregularities in financial and business operations in a venture, as could be made out from the fact that audit and consultancy firm Grant Thornton, which recently conducted a forensic audit of scam ridden National Spot Exchange Ltd (NSEL), is understood to be engaged by the Forward Markets Commission to do similar exercise for Multi-Commodity Exchange of India, an associate of NSEL. Forensic Audit has been commissioned on the functioning of United Commodities Exchange
(UEX) owing to siphoning of Corpus Fund and employees exodus.

**Forensic accounting services**

Forensic Accountant provides a number of services inclusive of investigation, confirmation of the fraud, litigation support, etc., which refers to the factual presentation of issues related to existing or pending litigation in connection with the fraud and potential one too. Quantification of damages due to the breach of a contract or due to the infringement of a patent / copyright assists in arriving at out of court settlement. Forensic Accounting / Audit promises to be the hot career in the days to come and the personnel involved should be unbiased and independent in their assignment.

Considering the financial irregularities committed by various commercial, Non-Governmental and government entities, business and demand for forensic audit services are on the rise. Indian financial market provides a good number of opportunities for such exercise so much so that the specialized firms started looking out to strengthen the Human Resources for meeting up the challenges thrown now to carry out the exercise by meeting the exponential growth in demands. Further, Reserve Bank of India’s requirement of Forensic Audit before a company can avail Corporate Debt Restructuring, when a Bank Loan throws disquieting signals, is also paving way for volume increase in the forensic activities, be it accounting or audit.

“Asset Tracing” is a very potential field for the forensic accounting experts. Tracing of financial / bank transactions for converting them into tangible asset is an important aspect of forensic accountant as the cash / money generated unauthorisedly has to be utilized and must change its form into tangible asset, apart from the lavish spending / life style practiced by the fraudster. Tracing and identifying the assets when it is under unlawful possession or control are the basic requirement to track the acts of a financial fraudster.

Besides, the new government is pushing for Infrastructure Sector activities in which many cases of Forensic Audit may be requisitioned.

In the US, pronouncement of The Sarbanes Oxley Act, 2002 marks the beginning of putting in place a proper mechanism for the publicly traded companies to establish the procedures for questioning the practices adopted by the companies with particular reference to accounting and disclosures. In the wake of international financial scams associated with big corporates such as Enron, World Com, Xerox, and the domestic one such as Satyam, Commodity Exchange, Securities, etc. and the capital market, securities, misuse of financial out lay in general, the profession of audit practiced by Chartered Accountants in India has come under severe criticism as they were under microscopic scrutiny of financial statements’ and accounting reports’ users like government, public, business sector, vigilance machinery, etc.

As the economy continues to grow, business entities seek to adopt best practices in accounting, improving controls through policy documents, etc.; such entities would be keen to adopt methods to prevent external as well as internal fraud as well as to limit losses from fraud by early identification of risk factors. The requirements of Basel norms for financial institutions, Sarbanes Oxley Act, etc., are focused to reduce the possibility of accounting scams and financial collapse on account of fraudulent transactions, by insisting for better disclosure practices.

In the case of companies, the Audit Committee of the Board is the ultimate authority in these matters. It is the endeavour of all the business entities, like the changes happening in the cultural aspects, making inroads, to align and imitate the best accounting practices adopted globally / in western countries. Besides, internal fraud is a cancer like situation that needs to be nipped in the bud and got rid of at the earliest opportunity. Investigation determines whether criminal activities of an insider are involved and to examine about action under vigilance angle, having serious consequences. Forensic Accountant documents the findings in the form of reports, exhibits and collection of data / paper. Investigation may also involve civil and administrative matters such as searching for hidden assets, interrogation of outside parties, etc.

Thus, through Forensic Lens view would facilitate to verify whether Due Diligence exercise is carried out by the person, authorities or Service Providers, as warranted by the situation as no straight jacket approach of audit would yield result.

rsraghavan007@yahoo.co.in
A Round Table Discussion on “Forensic Accounting & Auditing” was held on August 16, 2014 at EIRC Auditorium of the Institute of Cost Accountants of India organized by the Directorate of Research & Journal of the Institute. Shri Sukamal Basu, Former CMD & Chief Vigilance Officer, Bank of Maharashtra, Shri Partha Mukherjee, Addl SP, CBI, Anti Corruption Branch, Kolkata, Prof. Sanjay Banerji, Professor of Finance & Head of the Group, Nottingham University, U.K, CMA Mrityunjay Acharjee, Associate Vice President, Balmer Lawrie & Co. Ltd, Shri Debashish Sarkar, General Manager & Chief Vigilance Officer, Allahabad Bank, Janwab Khalid Aziz Anwar, Sr. Joint Commissioner, Commercial Taxes of Govt of West Bengal were among the dignitaries who were present on the dais and shared their valuable opinions and views on the theme concerned. Shri Basu asserted the fact about the immense importance of the Forensic Accounting and Auditing in every fraud detection specially in the Corporate sectors where it becomes extremely difficult for the CBI officer to determine each and every loopholes of the same. He briefly discussed on the various Acts viz. Foreign Corrupt Practices Act, U.K Bribery Act, Lokpal Bill, Companies Act, 2013 for detection and control of crime. He accentuated on the relevance of electronically stored information since datas stored are heterogeneous in nature. Shri Partha Mukherjee said that the Forensic Accounting is much different than the Conventional Accounting. According to him the Forensic Accountants are the Bloodhounds where as the conventional accountants are the Watchdogs. They deeply prevail into each and every transactions of an organization and also play the role of an investigator. The Forensic Accountants too analyze the data with logical reason. He detailed on certain case laws like Satyam, various Chit Fund Companies etc and explained the necessity of the Cost And Management Accountants in this perspective. Shri Banerji believes the dictum of the famous economist Gary Becker that harsher the punishment, lesser the chances of crime. CMA Mrityunjay Acharjee stated the fact that the mindset of the fraudster is much more faster and smoother than any ordinary gentleman and Forensic Accounting and Auditing is extremely important to protect the future losses and to keep forward the checks and balances. He emphasized on the importance of Whistle Blower and according to him it is one of the most prominent tool in detecting frauds of an organization. Shri Debashish Sarkar said that the Forensic Accounting and Auditing requires to be concretized to a large extent and the Laws and Constitution of our country needs to be much more stringent. According to Shri Khalid the VAT Frauds needs to be determined and the Cost and Management Accountants play a huge role in determining the fraud. He said that VAT dealers must be investigated and properly audited. All the dignitaries agreed that there is a need for proper data mining and there must be a proper combination of data resources of different agencies. Also mandatory requirement of proper guidelines of Forensic Accounting must be complied with. CMA Manas Kumar Thakur, Chairman, Research, Innovation and Journal Committee, and CCM, and CMA (Dr.) Debaprosanna Nandy, Director, Research and Journal, ICAI also shared their valuable views on the said topic. At the end there was a questionnaire session beautifully resolved by the eminent personalities on the dais. Shri Pradipta Ganguly, Deputy Director, Journal, ICAI ended the programme with a vote of thanks.

**IMPORANCE OF FORENSIC AUDIT STRESSED**

**Kolkata, 18 August:** Forensic accounting and auditing is extremely important to protect the future losses of organizations, said Mr. Mrityunjay Acharjee, associate vice-president, Balmer Lawrie & Co. Ltd, at a round table discussion on “forensic accounting & auditing” organized by the Directorate of Research & Journal of The Institute of Cost Accountants of India here last week.

Mr. Partha Mukherjee, additional SP, CBI, Anti Corruption Branch, Kolkata, said that forensic accountants are the bloodhounds where as the conventional accountants are the watchdogs. Prof Sanjay Banerji, Professor of Finance, Nottingham University, UK, stressed on the need for harsh punishment.

**The Statesman**

Kolkata, Tuesday 19 August 2014
From the Research Desk

Role of CMAs in Forensic Accounting & Auditing

• **Resource Mapping** – Forensic auditing offers a toolset that company managers can use to help detect and investigate inefficient use of resources. The CMAs with the help of “Resource Mapping” can improve efficiency by identifying areas of waste which would lead to efficient utilization of resources.

• **Risk Mapping** – Forensic Audit is an important tool to manage risk. Risks are unanticipated events that may affect the organization’s ability to meet its key objectives. Thus, CMAs can apply Risk Mapping procedures to identify, analyze and quantify the risks interfering the achievement of organizational objectives. They can set action plans to improve risk management system to smooth the progress of the management.

• **Cost Management Techniques** – The cost of fraud to businesses is very much difficult to estimate because all frauds and abuse can’t be discovered, all uncovered frauds are not reported and civil/ criminal action are not always pursued. However, legal, accounting, and increased insurance costs and loss of productivity associated with hiring and firing employees are additional factors that must be considered. To quantify and assess all these indirect costs, the CMAs can facilitate the management by suggesting innovative Cost Management Techniques.

• **Justification of Expenditure** – Detecting hidden assets and unreported income requires an understanding of the individual’s history and current situation pertaining to their personal life and financial affairs like business, investments and employment. The nature of the business dictates the kind of expenses generally incurred. Based on the individual’s “Income and Expense Declaration”, CMAs can develop suitable strategies to detect the magnitude of fraud.

• **Performance Study** – Performance management applies to involve employees in accomplishing a unit’s mission and goals, improving overall unit effectiveness, increase productivity of human resources and helping employees understand the importance of their contributions. Thus CMAs can verify discrepancies through performance study of the organization.

• **Efficiency Study** – In this context, CMAs can analyze efficiency study on the basis of technical and allocative efficiency. They can point out imbalance of input-output ratio, thus would lead the firm to efficiently allocate resources to increase productivity and profitability in due course.

• **Output-Input Correlation** – Since forensic accounting is a post-mortem approach, the CMAs have to measure output-input correlation, to find out the responsible input causing faulty/ non-commensurate output.

• **Fund Deviation Policy** – CMAs can carry out fund’s standard deviation to measure changes in price over the time and can provide valuable information about volatility and risk.

• **Subrogation Litigation** – It involves a team effort, requiring professionals with unique training, experience and qualifications. CMAs will be an invaluable resource for the subrogation recovery team to manage subrogation handling cost. This is how the CMAs can have an exposure in the field of Forensic Accounting.

• **Internal Control Mechanism** – Companies should take advantage of the residual benefits of utilizing a forensic accounting during an internal investigation as a cost-effective opportunity to enhance their internal control mechanism. CMAs can help to build-up sound internal control system through their expertise knowledge.

We should not lose sight of the objective of a forensic audit. The costs can be high, but the potential cost of not undertaking an audit and implementing its findings can be even higher.
TAXATION

FISCAL POLICY: ADVICE FROM THE ARTHASHASTRA AND OTHER TAX HAPPENINGS

The tax departments generally look to the West for even rudimentary training, whereas time-tested wisdom available in good measure within our own treatises that have survived the ravages of time is treated with aversion if not derision.

The Kautilyan state portrayed in the Arthashastra is a model of well-informed and stable governance. It is a master plan for founding an enduring state and a supportive society. The manual of statecraft propounded by Chanakya is timeless in many of its principles and strategies. The Arthashastra has endless do’s and don’ts, and offers a compendium of rights, duties and responsibilities by all concerned. It is also a road-map for a productive state where people would live happily and the collective wealth grows. The importance of trade and commerce in generating the resources of the state is duly recognized by the Arthashastra. The significance of foreign policy and the security interests of the state also get wide recognition and masterly tips. Of course, the treatise was written in a bygone age and reflected also the ethos of its time. For example, some of the punishments and tactics advocated in the code of Chanakya for the safety of the social order and the upkeep of the ruling monarchy may seem abhorrent by current standards. But that does not take away the time-tested utility of its benign insights. It is in the area of tax collection and revenue generation that the advice from the Arthashastra offers lessons that echo even unto the modern age, more than two thousand years down the time-line. The magnum opus of Kautilya is usually cited for its abiding advice on how to collect taxes — “as a bee would set upon a flower taking its honey in such a way that the bee is satisfied and the flower itself is not damaged in the process”. Nevertheless, the tax insights of the treatise go well beyond this popular quote. Some of these would be touched upon, as follows.

On collecting the correct revenue


| “There are three kinds of fault in revenue collection – causing loss through negligence, collecting more than just dues because of overzealousness, and being careless about keeping expenditure well within income”.
| Kauṭilya explains his philosophy further:
| “He who causes less of revenue swallows the King’s wealth. If he produces double the anticipated revenue, he eats up the Janapada (the taxpayers) by leaving them inadequate resources for survival and further production. If the official brings to the Treasury the whole of the excess revenue, he shall be given a small punishment......”
| “He who spends all the revenue (without bringing in any profit) swallows the labour of workers. He shall be punished according to the nature of the offense...”

These are salutary principles of fiscal policy for any finance minister and the tax administrations. The Kauṭilya caution to the state not to be pleased with the excess recovery of tax beyond what was anticipated since it would be...
tainted by the sapping of taxpayers’ income or earning capacity is a universal message of perennial wisdom.

**Trade policy**
The Kautilyan state was pragmatic that trade and commerce was among the major reasons behind the blossoming of socio-economic progress. So it lays down (echoed much later in David Ricardo’s theory of comparative advantage and Michael Porter’s advocacy of competitive advantage of nations).

“Trade shall be directed towards markets which are profitable, losses must be avoided. Any official who incurs the displeasure of the people shall either be removed from his post or transferred to a dangerous region…”

**Revenue budgeting for the State**
The principle of revenue budgeting cannot be more simply condensed than by the Arthashastra. Sample this:

“The net resources available to the state was thus to be calculated by estimating the revenue during the year, adding outstanding dues of the previous year collected during the current year and subtracting from this total committed Crown expenditure, remissions, uncollectibles and loans and advances…”

**When need arose for additional resource mobilization by the State**
The Arthashastra being a pragmatic manual of all-round statecraft recognized that a time would arise when the State would have to find additional revenues. So it carefully provided for this as follows: “A King who finds himself in great financial difficulty, may collect (additional) revenue using methods described…. (Herein)…."

One of the permitted methods was to collect additional taxes on commodities and professions, but kautilya enjoins that the levies should be used only once and not repeated. Compare this ancient exhortation in the timeless Arthashastra with the modern state practice of funding newer expenditures repeatedly through additional imposts which are usually forgotten to be scrapped when the raison d’être of the levies has lapsed.

**Special levies**
All demands under this heading are to be made only once and not twice. If the quality of the land or the commodity yield was poor or middling, the additional tax shall be proportional to the yield. No demand shall be made on a region which is useful for defense or a productive enterprise such as forts, reservoirs, trade routes, new settlements, mines, forests or small regions near the frontier (so as to avoid driving the frontier people into the hands of the enemy).

Buoyed by the pithy examples from the Arthashastra, let us now turn our attention to some significant decisions delivered recently in the arena of indirect taxation.

**Justice for the purchasers of goods and services**
The Refund code of Central Excise duty is contained in section 11B of the Central Excise Act. It has been made applicable to Service tax too by a statutory provision in the Finance Act, 1994 which is the law of service tax. A notable feature of the excise refund law is the provision enabling purchasers of goods and services to apply for refund of the duty/tax passed on to them by the tax-paying manufacturers and service providers if such purchasers think that the tax was not payable at all by those who paid it to the government. No qualification has been prescribed for the claiming purchasers as to their status – whether they be Indian Nationals, individuals or corporate entities etc. The only condition is that the refund should be claimed within one year from the date of purchase. In the case of Haren Ventures Pvt Ltd Vs Asst Commissioner of Service Tax - 2014-TIOL-1333-HC-MUM-ST, the appellant was a Singapore-based company and it filed a refund claim for Service tax of Rupees
52.54 Crores before the assistant commissioner of service tax on the ground that their collecting agent in India had wrongly paid the tax on services provided to them. The assistant commissioner of service tax rejected the claim on the basis that the claimant was located outside India and hence the refund provisions did not apply to them. However, the Bombay High Court came to the rescue of the claimant by setting aside the plain rejection order and remanding the case, by observing:

“3. After hearing both sides on the limited point as to 'whether the communication could be termed as an order within the meaning of the Act', and finding that the exercise contemplated by law is quasi judicial in nature, we are of the opinion that such communication cannot be sustained. In the given facts and circumstances the Competent Authority was obliged to hear the petitioner and consider its claim on its own merits and in accordance with law. Thereafter it was expected that the Competent Authority should pass a reasoned order and duly communicate it to the petitioner.

4. It is such an exercise that is contemplated in the given facts and circumstances. Since we have found that the same has not been undertaken, the communication at "Annexure C" cannot be sustained. It is accordingly quashed and set aside”.

It will be interesting to watch the case unfold not only because the amount under claim is huge enough but also due to the question of law involved in the case which is whether a non-resident company/person can file a claim of refund if it has incurred the service tax on its consumption of services provided from India. For now, the High Court has passed an order entitling the claimant to the due process of law and the developments in the case would be worth watching. The case when it gets decided ultimately will be a landmark in the refund jurisprudence.

Self-adjustment of Service Tax

The Service tax Rules have a unique provision not seen in any other Indirect tax system in the country. The mechanism avoids the hassles of approaching the tax department with a formal claim for refund which is usually not easy to get. Litigation further up the chain will be required. Hence to avoid possible belated refund through the formal process, the Rules provide for virtual self-refund by means of self-adjustment by the taxpayer of excess service tax paid by him which was not on account of reasons of taxability, exemption, classification, valuation or interpretation of law etc. The excess tax could be used to adjust against the tax liability arising for the ensuing tax period. The Service tax department sought to deny the self-adjustment on the ground that only assessees with centralized registration would have difficulties in estimating income receipts and would end up paying excess tax and that only such assessees alone could be permitted to undertake self-adjustment. In the case of General Manager (CMTS) Vs CCE, CHANDIGARH -2014-TIOL-1422-CESTAT-DEL, the Tribunal observed tellingly:

“....There is no condition in Rule 6(4A) read with Rule 6(4B) providing that for availing of the adjustment facility, the assessee must have opted for centralized registration under Rule 4(2). Moreover when an assessee during certain months, for reasons other than interpretation of law, taxability, classification, valuation or applicability of exemption, has paid service tax in excess of his actual tax liability, the Government cannot retain the excess tax paid by the assessee by refusing its adjustment against his tax liability during other months and refusing adjustment of such excess tax payment during a month against tax liability during other months and appropriation and retention of the same would amount to collection of tax without the authority of law which is contrary for the provisions of Art 265 of the Constitution of India. As held by the Apex Court in case of Ispat Industries Ltd. vs. CC, Mumbai reported in 2006 (202) ELT 561 (SC) = 2006-TIOL-127-SC-CUS (para 26 to 29) whenever there is conflict between a norm in a higher layer in the hierarchy of the laws in the legal system of the country as a norm in a lower layer in the hierarchy, the norm in the higher layer in the hierarchy will prevail. Therefore, if excess payment of tax in a month is not on account of reasons involving interpretation of law, taxability, classification, valuation or applicability of exemption notification and is purely on account of inability of the assessee
to exactly determine the total amount collected during the month against the bills raised, as a result of which he had determined his tax liability or estimation basis, the excess amount of tax paid during the month can be adjusted against his tax liability during other months and in this regard, there cannot be any monetary limit.

8. In view of the above discussion, the impugned order is not correct. The same is set aside. The appeal is allowed”

Trade incentive: whether liable to service tax?

Merchants, Dealers and Agents earn incentives and bonuses for their performance which exceed targets and are appreciated by their principals. The Service tax department tries to tax such incentives by holding the earnings as part of the assessable value of services performed. The far-fetched notions of the department were put paid by the Tribunal in the case of M/s Oswal Cable Products Vs CCE – 2014-TIOL-1409-CESTAT-DEL, when the Tribunal approvingly cited the ratio reached in an earlier case of CCE, Chandigarh Vs Facinate Advertising & Maarketing 2013 (31) STR 77 (Tri.-Del):

"6. I find that the Tribunal in the case of CCE, Chandigarh Vs. Facinate Advertising & Maarketing 2013 (31) STR 77 (Tri.-Del). has held that the incentive received for appreciable performance cannot be held to be a value of the services provided and as such no tax can be levied on the same. For better appreciation I reproduce the relevant paragraph of the said decision:-

"4. Incentive is a receipt for appreciation of performance of services provided. How such forms part of taxable service remained unexplained. We are unable to find how the revenue shall succeed saying that incentive shall be brought to tax when such incentive whether shall be payable was not known to the respondent while providing service. Therefore, the dispute on that count is resolved against the revenue.”

By following the said decision I set aside the confirmation of demand of duty of Rs. 1,01,218/- along with interest and penalty of identical amount”.

Despite the ratio of these consistent caselaws and the exemption contained in the negative list vide section 66D of the Finance Act 1994 regarding the activity of trading of goods, the service tax department on the ground continues to be engaged in fruitless litigation on this issue.

No routine, general audit of service tax assesses

In a stunning verdict that would warm the hearts of the suffering auditees among the service tax payers the Delhi High Court in the case of Travelite India Vs Union of India – 2014 TIOL-1304-HC-DEL-ST has held that the Service tax Department lacks jurisdiction to undertake audit other than the one contemplated under section 72A of the Finance Act 1994 and that the Rule 5A(2) of Service tax Rules 1994 providing for a routine and general audit of the assessees is ultravires of the Act. It may be noted that the Audit envisaged under section 72A is a special audit which can be resorted to by an order of the commissioner under special circumstances only. Further, the audit can only be got done through professional accountants, viz., CMA/CA. The Court held that the Rules cannot exceed the scope of policy contained in the Act. The judgment will have an impact in central excise arena as well. The development is good news for CMAs who can now hope to land audit assignments from the CBEC. The hitch is that the special audit under the tax laws cannot be resorted to on a substantial scale like a general audit and the number of such audits will necessarily remain limited under administrative discretion of the CBEC. However, the time has come for the CBEC to formulate a legally mandated scheme for the tax audit of large central excise and service tax assessees (paying, say, more than Rupees one Crore) and empower professional CMAs to conduct such tax audits and issue their reports. The field officers of the CBEC who are now spared from fruitless routine audits may be productively deployed for more value-added work such as study, scrutiny and analysis of tax returns, ACES-related compliance and other information returns received as well as in intelligence-based enforcement.

Conclusion

The ancient wisdom of works like the Arthashastra holds potential for solving many of the ills that tax administrations are confronting without much success. As the saying goes, those who forget history will be compelled to repeat it. Tax collection has been an age-old sovereign task and is a tool to fulfil revenue and non-revenue objectives alike. The task of tax administration has never been a walk in the park. The tax departments generally look to the West for even rudimentary training, whereas time-tested wisdom available in good measure within our own treatises that have survived the ravages of time is treated with aversion if not derision. There is no use taking pride that we are an ancient and sustaining civilization if we are not willing to cast our eyes on the timeless knowledge lying unheralded in our hoary treatises.

ravinpranaa@gmail.com
How do Indirect Taxes fare?

Presenting the tax proposals on 10th July 2014 before the Parliament, the Finance Minister referred to the Revenue Collection Targets for Direct and Indirect taxes set by his predecessor as ambitious. Still, he proposed to retain these targets and hoped to achieve the same. In the field of Direct taxes, he chose to give away a sum of Rs.22,200 crores by way of relief to taxpayers. Reliefs were also announced with regard to customs duty. When it came to excise duties, the Finance Minister chose to mobilize resources by raising specific excise duties on cigarettes from 11% to 72%. Duties were also raised on Pan Masala to 55% and unmanufactured tobacco to 70%. He claimed that these are healthy measures and hoped everyone will welcome them from the point of view of human and fiscal health. Clean Energy Cess was raised from Rs.50 per ton to Rs.100/- per ton. Tobacco and liquor duties are known as Sin Taxes. Year after year tax rates go up in respect of these products. The question arises whether such taxes can be confiscatory.

The Case of Fiat India (P) Limited 2012 (283) E.I.T 161 (SC)

The Supreme Court handed down a landmark ruling in the case of Fiat India Limited in 2012. The company was selling the Cars below the cost price. The Central Excise department declined to accept such price for the purpose of quantification of the assessable value under Section 4 of the Central Excise Act. The company pleaded that the sale was made at below the cost price so as to penetrate the market which was competitive by selling below cost. The Supreme Court observed that the sale price in this case did not reflect the true value of the goods. The Court Ruled that sale below the cost to push the product into the market cannot constitute acceptable assessable value. This case was discussed by the present authors in the issue of Management Accountant in January 2013. There was expectation that amendments would be made to the Central Excise Act in the Budget 2014 to get over the adverse effects of the Fiat judgement. The expectation was high in the light of Notices being sent by the Central Excise department by companies selling vehicles at a discount.

The Budget now lays down that if a company sells its product at less than the cost of production, including profit, and if no additional consideration flows to it from the buyer, then the transaction value will be the basis for the excise valuation. The Notification clarifies that where price is not the sole consideration for sale and sale is effected at a price less than manufacturing costs, the value of the goods shall be taken at the same value if no additional consideration is flowing directly or indirectly from the buyer to the company. This clarification does not help at all.

The Supreme Court had laid down that market penetration by way of predatory pricing will constitute additional consideration. The Notification and the Rules under the Central Excise Act do not provide a clear picture. The amendment applies only in cases where no additional consideration flows. The amendment of valuation rules will have to proceed further in order to meet with the representations made by the manufacturers. At a time when accent is on manufacture, it is necessary that harsh interpretations of the Rule with regard to discounts offered to penetrate the market should be avoided.

Service Tax

Amendment to the Service Tax law increases the rate of interests on delayed payment of service tax to the extent of 30% per annum if
the delay extends beyond one year. This is quite harsh. This will be in addition to the penal provisions under the law. The income tax law does not levy interest at 30%.

**Mandatory Pre-deposit**

Amendments made by the Finance Act brought in new provisions in order to direct pre-deposits of 7.5% of the demand of duty or penalty in all cases of first appeal under the Central Excise Act. In respect of second Appeals, the pre-deposit will be 10% of the duty or penalty. These provisions apply for Central Excise, Customs and Service Tax demands. No power is rested in the Appellate Authorities to stay recovery of disputed demands till the disposal of the appeal. The pre-deposit of 7.5% of the disputed demand is a condition precedent for hearing of the appeal. The only relief granted is that the pre deposit shall not exceed Rs.10 crore for each individual appellant.

The amended Section has done away with the discretion to grant waiver of pre-deposit vested in the appellate authorities. The Appellate Authority has no discretion to stay the demand. This is an important change brought about in the law which is not alluded to in the budget speech of the Finance Minister. Thank God, this provision is not prevalent under the Income Tax Act. The amendment can lead to unlimited harassment and abuse of provisions.

**CENVAT Credit**

The Finance Act has introduced restrictions for availing CENVAT credit. It is now laid down that it should be availed of within 6 months from the date of the input or input service invoices. This is a new innovation. Hitherto, there has never been any time limit prescribed for availing CENVAT credit. The Supreme Court had recognized this right as being substantive and indefeasible. The new restriction of 6 months appears unreasonable. It should be noted that service tax authorities are entitled to adjudicate tax short falls and demands for the past 5 years.

Service Tax base is now being broadened by the proposed to levy tax on sale of space/time in online and out-of-home media and provision of radio cab services which were hitherto in the negative list of services.

**Conclusion**

The cut in duties of several finished products will bring cheer to a large number of households. We can expect prices of Refrigerators, Laptops, Tablets, Led-lights, Lamps, LCD and LED TVs, Cathode Ray TVs, Mobile Phones, Washing Machines, RO-based Water Purifiers and Ovens to costs less. The prices of Soaps and foot ware, Precious and Semi Precious Stones and Smart Card will all be brought down.

Collections from Indirect Taxes will be much less than the collections from Direct taxes. This is as it should be. It is well known that Indirect taxes are regressive in nature.

The Finance Minister has also held out the hope that the Goods and Services Tax Bill will be enacted into an Act in this fiscal year. This should send cheer allround. MA

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**Attention please – Members in Practice**

Members in practice can now view their validity of Certificate of Practice by following the procedure as laid down below:

1. go to the home page of the Institute website, ie www.icmai.in
2. go to the members’ log in on the top of the Home page by using your membership number as 'User ID' and a combination of your DoB (in dd-mm-year format) and Membership number as your 'Password'
3. immediately you will be led to the 'Membership Management System' page
4. go to the 'Certificate of Practice' menu on that page
5. view the validity of 'Certificate of Practice' which is the last item on that menu
Consortium need not always be treated as AOP

Execution of a contract by a consortium of different enterprises is becoming more common in the case of large business contracts. An inference that such a consortium should ordinarily be treated as an Association of Persons (AOP) follows. But where such consortium is for a limited purpose of a particular contract with independent responsibility and without any risk sharing, there is no AOP as was decided by the Delhi High Court in Linde AG, Linde Engineering Division v. Dy.DIT [2014] 365 ITR 1 (Del) and CIT v. Mitsui Engineering and Ship Building Co. Ltd. [2003] 259 ITR 248 (Del). The Karnataka High Court in VDO Tachometer Werke, West Germany v. CIT [1979] 117 ITR 804 (Karn) and the Authority for Advance Ruling in Rotem Co. In re [2005] 279 ITR 165 (AAR) have also taken similar view. Where parties join to bid for a tender or to take a contract, and divide the contracted work among themselves, carrying out their respective divided shares at their own risk with no risk sharing, the inference of AOP does not necessarily follow.

Carbon credits – Are they exempt?

An offshoot of green revolution at the instance of international initiative known as Kyoto Protocol is the green credits available for those, who adopt productive techniques to reduce carbon emission and thereby pollution. Such credits are transferable. Are the proceeds tax exempt? It was decided by the High Court in CIT v. My Home Power Ltd. [2014] 365 ITR 82 (AP), that it is a capital receipt and that there being no cost for the same, it would not be liable to tax.

Since the carbon credit is earned in the course of business, the inference that it is a capital receipt as against the contention of revenue, is not free from doubt. The further inference, that there is no liability for tax on capital gains, because no cost is incurred, is also doubtful, as extra cost is incurred for earning the credit and is allowed in computation of taxable income. The inference, that in cases where there is no cost, capital gains will not be taxable, is also not free from doubt because section 55(2)(a)(ii) provides that in cases of assets specified therein, the cost should be taken as nil raising a further question whether the provision could have application. In the larger interest of the economy, the proceedings should have been made exempt under the law. But then, tax laws often travel in reverse gear as for example, the Finance (No.2) Act, 2014 passed by both the Houses post-haste disallows even the amounts spent on corporate social responsibility, notwithstanding the fact that it has to be statutorily incurred. In these circumstances, the provision for disallowance is retrograde. It should be possible to align social objectives with tax measures.

Prior to this provision also, the Madras High Court in CIT v. Madras Refineries Ltd. (2004) 266 ITR 170 (Mad) had held as under: “The concept of business is not static. It has evolved over a period of time to include within its fold the concrete expression of care and concern for the society at large and the people of the locality in which the business is located in particular. Being known as a good corporate citizen brings goodwill of the local community, as also with the regulatory agencies and the society.
at large, thereby creating an atmosphere in which the business can succeed in a greater measure with the aid of such goodwill. Monies spent for bringing drinking water as also for establishing or improving the school meant for the residents of the locality in which the business is situated cannot be regarded as being wholly outside the ambit of the business concerns of the assessee, especially where the undertaking owned by the assessee is one which is to some extent a polluting industry.

Such donations were found to be admissible in CIT v. Bharat Heavy Electricals Ltd. [2013] 352 ITR 88 (Delhi) as it had to get local support, so that it would be a welfare measure, relying upon Madras Refineries Ltd.’s case, which has been set aside by the Supreme Court and remitted back to the High Court in CIT v. Madras Refineries Ltd. [2009] 313 ITR 334 (SC) for a finding on the nexus as between such donations and the business. However, the law in such cases, where the benefit to educational institutions and for other social objectives need not justify disallowance.

Expenditure for installation of traffic signals for roads leading to assessee’s business premises was held deductible as a payment for discharge of assessee’s corporate social responsibility besides facilitating the employees, could also be treated as wholly and exclusively for purposes of business as decided in CIT v. Infosys Technologies Ltd. [2014] 360 ITR 714 (Karn).

It should be possible to align income tax law with social objectives.

Lumpsum payment for long term lease may not be deductible

Lump sum payment under a lease agreement for 39 years with the option to renewal of lease was found admissible by the Supreme Court in CIT v. Madras Auto Service (P.) Ltd. [1998] 233 ITR 468 (SC). This decision was followed by the Tribunal in a case of lease for 80 years with right of renewal in the view that the duration of lease does not determine the character of the expenditure and allowed the deduction. The High Court in CIT v. Rane Brake Linings Ltd. [2014] 365 ITR 401 (Mad), while reversing this decision of the Tribunal held that the assignment deed did not have anything to suggest reversion of the property or any other rights to the assignor.

Charities sponsored by religious communities need not lose exemption

Many Non-Government Organisations (NGOs) are inspired by religious and caste institutions in India rendering yeomen service supplementing the State functions. The trust deeds often invoke the respective gods and religious texts, but their activities are genuinely running educational and medical institutions, where the beneficiaries are substantially from other communities. It is really hard on them, if they are denied exemptions. A narrow view was prompted by the decision of the Supreme Court in Ahmedabad Rana Caste Association v. CIT [1971] 82 ITR 704(SC). This was followed in CIT v. Palghat Shadi Mahal Trust [2002] 254 ITR 212 (SC) and State of Kerala v. M.P. Shanti Verma Jain [1998] 231 ITR 787 (SC). But there is a broader approach by the Supreme Court in CIT v. Dawoodi Bohra Jamat [2014] 364 ITR 31 (SC), which no doubt, distinguishes the earlier cases, but in fact has reversed the narrower view earlier taken on mere language in the trust deeds ignoring the public benefit. The present decision of the Supreme Court categorically provides that the objects of spreading religious awareness by educating tenets of a particular religion should not be understood as formed for the benefit of a particular religious community. There may be some blending of religion and charity, but where activities are predominantly charitable in character, there is no reason why the benefit of exemption should not be availed by them as held by the Supreme Court in this case. When purely religious trusts are exempt, there is no reason why a mixed trust should altogether lose exemption. At any rate, these trusts which are predominantly religious in character have to lose the benefit of approval for tax exemption for the donors under section 80G.

s.rajaratnam@vsnl.com
TAXATION ISSUES IN TELECOM SECTOR

Tax litigations with complete disregard to the explicit provisions of Section 194H as given in the Income Tax Act is subjecting telecom operators to undue tax demands year after year, resulting in huge litigation costs.

CMA Ashok Chawla
Head of Tax – Deputy Director
Sistema Shyam Teleservices Limited
Gurgaon
The telecom industry in India is one of the fastest-growing in the world. The telecom industry in India has experienced exponential growth over the past few years and has been a major contributor to economic growth. This is largely on account of liberalization opening up the sector and reforms introduced by the government. With the entry of private players, competition in the last decade has served as the primary facilitator of this astonishing growth.

Telecommunication has played a significant role to narrow down the rural-urban digital divide to some extent supported by the socioeconomic development of India. This growth of telecom sector has further assisted the transparency of governance with the introduction of e-governance in India.

However, even with these positive regulatory moves and initiatives by the government to make the Telecom Sector the ‘backbone’ of this country’s infrastructure, stubbornly the complexities in Indian Income tax regulations which are adversely impacting the investor sentiments and which are constantly have been subject matter of the litigation between tax payers and the revenue authorities. One of the section of Income Tax Act among those complex sections is Section 194H on which divergent views have been expressed at different levels by the tax authorities, tribunals and courts. Hence, the applicability of Section 194H with respect to the TDS on discounts being treated as Commission by the tax authorities to distributors in case of distribution of e-recharge and paper vouchers by telecom operators, has very antagonistic impact on the industry which is one of the major tax (Direct as well as indirect tax) payer industry for the exchequer in India.

Legal history
Section 194H was introduced by the Finance (No.2) Act, 1991, w. e. f. 1-10-1991 and later on amended in 1992 and was omitted by Finance Act 1999 w. e. f. 1-4-2000. However, Finance Act, 2001 has reintroduced this Section 194H w. e. f. 01 June 2001. This Section provides that any person, not being an individual or a Hindu Undivided family, who is responsible for paying, on or after 01 June 2001, to a resident any income by way of commission (Not being the insurance commission referred to in Section 194D) or brokerage, shall at the time of credit of such income to the account of that payee or at the time of payment of such income in cash or by the issue of a cheque or draft or any other mode, whichever is earlier, deduct income tax thereon at the rate of ten percent provided the aggregate of the amount of such income credited or paid or likely to be paid during the financial year to the account exceed [Rupee five thousand]

Explanation to this section provides that where any income is credited to any account, whether called “suspense account” or by any other name, in the books of accounts of the person liable to pay such income, such crediting shall be deemed to be credit of such income to the account of the payee and the provisions of this section shall apply accordingly.

Facts
All the telecom operators usually have entered into agreement with distributors for providing talk time / data services to their end consumers for distribution of ‘talk time’ in advance which is available in form of recharge vouchers (RCVs)/e-top up available in different denominations. The distributors obtain the RCVs at a discount over the Maximum Retail Price (‘MRP’) from the telecom operators and thereafter make the same available to the retailers/ prepaid subscribers.

The transaction between the Appellant and the distributors in relation to the sale of talk time is pictorially depicted and step wise explained here-below.

The retailer sells such talk time to the eligible subscrib-
ers who can then avail the telecom services provided by the telecom operator. The money collected by the distributors from the retailers or by the retailers from the subscribers is on their own account and not on behalf of the telecom operator. The telecom operator does not even know the end price at which the talk time is made available to the subscriber.

**Issue**

Income tax authorities have taken a view based on the facts discussed in the preceding para that telecom operators are giving commission to their distributors by providing the commission, being the difference between the MRP and Distributor Price and therefore are liable to withhold taxes on this trading margin. In the absence of this withholding tax compliance by the telecom operators, tax authorities are issuing notices on telecom operators year after year under Section 201 and Section 201(1A) of the income tax Act, 1961.

This view of the department has been deliberated inversely at different levels by department, tribunal and courts. The view point taken by the tax authorities in this matter is not correct based on the following premises:

(a) Telecom operators are not responsible for paying any income by way of commission to the Distributors in the context of pre-paid talk time;
(b) There is no credit affected in the books of account of the telecom operator nor any payment made (actual or constructive) of any income by way of commission to the distributors;
(c) The relationship between the Telecom operator and the Distributors is that of a Principal and Principal and in absence of an ‘agency element’, the provisions of section 194H of the Act cannot be invoked;
(d) The potential trading margin which the distributors could have realized on making sales to retailers/subscribers cannot be described as ‘commission’;
(e) In any case, the margin if any retained by the Distributor while further selling the prepaid talk time to retailers or subscribers is not known to the telecom operators;
(f) In absence of specific provision and having regard to the provisions of section 194G in the Act which was brought into the statute together with section 194H, there can be no withholding tax obligation on the Telecom operator.
(g) Authorities are not appreciating that the tax deduction provisions under chapter XVII B and section 194H of the Act in particular contemplate deduction of tax at the time of credit of income to the account of the payee or at the time of payment of such income, whichever is earlier, either of which are not present in the facts of the case.

**Department views / judicial pronouncements / recent amendments in law**

The view taken by the department that telecom operators not doing withholding of tax compliance for the discounts offered to distributors being considered as commission, are “assessee in default” if the tax is paid by the deductee.

However, this view of the department is framed with complete disregard of the fact that the distributors have discharged their tax liability by way of advance tax and self-assessment tax in respect of the income accruing to them from the distribution of talk time.

When the tax liability has already been discharged by the recipient of income direct, it is a settled proposition that no demand can be raised on the Assessee in the present case and that the Assessee cannot be treated as ‘assessee in default’.

The following judicial precedents interpreting the Act and provisions of the Act, support this position of law:

**Hindustan Coca Cola Beverage (P) Ltd. vs CIT (SC)……..**

The Tribunal upon rehearing the appeal held that though the Assessee-assessee was rightly held to be an 'assessee in default', there could be no recovery of the tax alleged to be in default once again from the Assessee considering that Pradeep Oil Corporation had already paid taxes on the amount received from the Assessee. It is required to note that the department conceded before the Tribunal that the recovery could not once again be made from the tax deductor where the payee included the income on which tax was alleged to have been short deducted in its taxable income and paid taxes thereon. There is no dispute whatsoever that Pradeep Oil Corporation had already paid the taxes due on its income received from the Assessee and had received refund from the tax department. The Tribunal came to the right conclusion that the tax once again could not be recovered from the Assessee (deductor-assessee) since the tax has already been paid by the recipient of income……..

**Central Board of Direct Taxes (‘CBDT’) has acknowledged the above position of law and accordingly issued the underneath circular.**

**Circular No. 8/2009, Dated: November 24, 2009 “…. Considering the facts and circumstances of the class of cases...”**
of TPAs and insurance companies, the Board has decided that no proceedings u/s 201 may be initiated after the expiry of six years from the end of financial year in which such payment have been made without deducting tax at source etc by the TPAs. The Board is also of the view that tax demand arising out of Section 201 (1) in situations arising above, may not be enforced if the deductor (TPA) satisfies the officer in charge of TDS that the relevant taxes have been paid by the deductee assessee (hospitals etc.). A certificate from the auditor of the deductee assessee stating that the tax and interest due from deductee assessee has been paid for the assessment year concerned would be sufficient compliance for the above purpose. However, this will not alter the liability to charge interest under Section 201 (1A) of the Income Tax Act till payment of taxes by the deductee assessee or liability for penalty under Section 271C of the Income Tax Act as the case may be…..

It is well settled legal position that CBDT circulars are binding on the tax authorities and thus it is thus most respectfully prayed on the basis of the above submissions, the following:-

• That from a factual and legal standpoint, there is no obligation on the telecom operator to withhold taxes on the transaction with the distributors for pre-paid talk time.

• That in any case, the telecom operator cannot be treated as an ‘assessee in default’ for the purpose of recovery of the taxes since the distributors have discharged their tax liability on their own on the income earned by them from the distribution of talk time.

CIT Vs Majestic Hotel (155 Taxman 447):
The Hon’ble Delhi High Court in the case observed as under:

…..“If tax has been paid by the deductee as is the position in the instant case, there is no question of the assessee paying the same over again either in full or part. Tax could be recovered from the assessee only once. If that be so, interest must stop accruing, the moment, the amount of tax is paid to the Revenue. It is immaterial whether the tax is paid by the deductee or the assessee who had made the deduction. What is significant is that the interest which is compensatory in character is paid to the Revenue till the date the amount of tax is actually deposited. That is precisely what has been done in the instant case. The question framed earlier is answered accordingly.”…..

CIT Vs Trans Bharat Aviation (P) Ltd (225 CTR 415)
The Hon’ble Delhi Court in the case of observed as under:

…..“We note that ITAT has followed the decision of this court in CIT vs Adidas Marketing P. Ltd. in which decision this court held that the assessee who was obliged to but had not deducted tax at source, would not have asked to pay the same where the deductee had paid tax on the amount received by him as his income.”…..

ACIT v British Airways (2005) (95 TTJ 980) (Del)

In the aforesaid case, the following observation was made:

…..“Section 191 provides that where tax has not been deducted at source, income-tax shall be payable by the assessee directly. Till the insertion of the Explanation in section 191, the Department could not proceed to recover short deduction of tax from the payer of the income. However, after the insertion of the Explanation to section 191, this hurdle has been removed whereby the Department can proceed to recover short deduction of tax from the payer. However, as per the said Explanation, only that part of the tax can be recovered from the payer which has not been paid by the assessee direct. In other words, if the payer has not deducted any tax or has made short deduction of tax, but the deductee has paid the entire tax, then no recovery can be made from the deductor.”…..

The Mumbai Special Bench analyzing the newly substituted Explanation to Section 191 read with Section 201(1) of the Act and relying inter-alia on the decision of the Hon’ble Supreme Court in the case of Hindustan Coca Cola Beverage P Ltd v CIT (supra) held as under :

“…..Thus even if the sum is chargeable to tax in the hands of the recipient and the provisions for deduction of tax at source also exists on such payment, still the payer cannot be treated as assessee in default if the payee has paid the due tax. It is the dilution of the provisions of section 201(1). Logically, also we find it a correct proposition for the obvious reason that the purpose of treating the person responsible failing in his duty as assessee in default is to ensure that the tax is adequately recovered. But if the payee has himself paid the tax, then there cannot be any point in again treating the payer as assessee in default and repeatedly recovering the tax.”

In the instant case, since the distributors have paid taxes on income earned by them from distribution of pre-paid talk time, no further taxes can be collected from the Assessee in respect of distribution income of such distributors. Recently, the Calcutta High Court has also upheld this proposition in a case where they otherwise
held, based on the facts of the said case, that the telecom operator was under an obligation to withhold taxes on the transaction with the distributor. The observations of the Hon’ble Court are reproduced below:

**Bharti Cellular Limited v. ACIT (Cal. HC)**

“However, we direct the Assessing Officer to examine whether all the franchisees whose Income Tax has not been deducted at source by the assessee has already been assessed entire tax payable is recovered in regular basis or not. If it is not by this time then this action will be taken, and if it is already realised and recovered then the principal amount of taxes to the extent of deductible at source shall not be recovered from this assessee however, interest payable under the law has to be levied.”

**Section 191(1)**

As per section 191 of Act, “in the case of income in respect of which provision is not made under this chapter for deducting income tax at the time of payment, and in any case where income tax has not been deducted in accordance with the provisions of this chapter, the income tax shall be payable by the assessee direct”.

Further, a new proviso has also been inserted by Finance Act 2012 to Section 201 (1) of the Income Tax Act, 1961 as under:

"Provided that any person, including the principal officer of a company, who fails to deduct the whole or any part of the tax in accordance with the provisions of this Chapter on the sum paid to a resident or on the sum credited to the account of a resident shall not be deemed to be an assessee in default in respect of such tax if such resident—

(i) Has furnished his return of income under section 139;
(ii) Has taken into account such sum for computing income in such return of income; and
(iii) Has paid the tax due on the income declared by him in such return of income, and the person furnishes a certificate to this effect from an accountant in such form as may be prescribed.

However, this new proviso is of little help to the telecom operator for the reasons not under the control of telecom operator to establish that tax has duly been paid by the deductee and income is duly reported in his tax returns, tax authorities are subjecting telecom operator to undue tax demands year after year for such amounts.

Here the most agonizing fact is that tax authorities immediately after issuing notices on telecom operators, start pressuring operator to deposit this undue tax demand in a short span of time as it appeases the tax authorities, even if the operators going in for a compulsory litigation route for this undue tax demand imposed on them. Collection of tax (Undue tax) from the operators through this mode, whereby tax authorities contributing to their annual revenue collection targets, is not at all a sign of universal practice of tax authorities.

**Impact on the industry**

It is because of this undue tax litigation, where authorities are relying on their autarchic approach with complete disregard to the explicit provisions of Section 194H as given in the Income Tax Act, tax payers (telecom operators) being subjected to undue tax demands year after year for not doing the withholding of tax as envisioned by the tax authorities. This is resulting in huge litigation cost to all the telecom operators and undesirable blocking of the working capital to the extent these tax demands being deposited by the telecom operators against the notices issued by the tax authorities. This litigation further adding to pending numbers of undue multiple cases for different operators at different levels of assessing / quasi-judicial / judicial authorities, which themselves have no substance in it.

Nevertheless, the government did announce some significant initiatives - like the much-awaited policy on mergers and acquisitions and permitted 100 per cent foreign investment in the sector – which will drive Indian telecom in the years to come, what analysts feel, but with the kind of tax litigation, which we feel is being intentionally imposed on all the telecom operators even when facts and legal provisions are crystal clear would not allow the entrepreneur to reap the benefit of the efforts done by the government on the regulatory front. For telecom sector to be a strong service sector in India, constructive regulatory environment and confident tax framework should go hand in hand to maintain the industry confidence and rise in foreign inward investment in India.
DIRECT TAXES

Case Laws

- Javed Akhtar got 50% deduction for getting his Society’s lift replaced benefitting his professional work - Where assessee had incurred expenditure on replacement of new lift to remove hardship and inconvenience caused in his professional work as well as family life, 50 per cent of total expenditure which was considered to be for professional purpose was allowed as revenue expenditure - Javed Akhtar v. ACIT [2014] 46 taxmann.com 395 (Mumbai - Trib.).

- Even joint ownership in second house at the time of sale of capital assets would lead to denial of section 54F benefits - Where assessee owns a residential house even jointly with another person, on date of sale of long-term capital asset, his claim for deduction under section 54F would be rejected - CIT v. M.J. Swami [2014] 46 taxmann.com 170 (Karnataka).

- Salary income declared after search proceedings would be deemed as undisclosed income even if tax was deducted therefrom - Tax to be deducted at source being also computed on estimated income of an assessee for relevant financial year, such deduction cannot result in disclosure of total income for relevant assessment year – ACIT v. Minooabhai D. Irani [2014] 47 taxmann.com 289 (Gujarat).

- AO could enquire into depositor’s information from banks even if no proceedings were pending against assessee - Income-tax Officer can issue notice calling for information for enquiry from assessee-bank in order to ensure that transactions of depositors are wholly transparent – Kulathupuzha Service Co-operative Bank Ltd. v. ITO (Intelligence) [2014] 47 taxmann.com 290 (Kerala).

- Institutes providing event management courses without awarding any diploma not entitled to section 12AA registration - Where assessee-trust ran an institution conducting classes in event management which was not recognized by governmental bodies and as a consequence it did not result in conferment of any degree or diploma, said activity would not fall within meaning of ‘education’ and, thus, assessee’s claim for registration under section 12AA was to be rejected - Impressario Educational Trust v. CIT [2014] 47 taxmann.com 259 (Cochin - Trib.).

- ITAT follows AS-10 to include one-time vehicle tax in cost of vehicle treating it as capital expenditure - Para 20 of Accounting Standard-10 Accounting for Fixed Assets requires that the cost of a fixed asset should comprise of its purchase price and any attributable cost of bringing the asset to its working condition for its intended use. One-time tax for the life time of “all motor cars used or kept for use” in the State of Maharashtra under the Bombay Motor Vehicles Tax Act, 1958 is a tax for user, active or passive, of the motor vehicle in the territory of Maharashtra. Therefore, payment of tax, inasmuch as it only enables the vehicle being put to its intended use, in fact, represents a condition and, therefore, shall form part of its cost - M. Dinshaw & Co. (P.) Ltd. v. Dy. CIT [2014] 48 taxmann.com 190 (Mumbai - Trib.).

Statutes

- CBTD notifies new tax audit Form with additional reporting requirements - NOTIFICATION NO.33/2014 [F.NO.133/1/2014-TPL]/SO 1902(E), DATED 25-7-2014.

- Govt. notifies revised DTAA between India and Malta; to be effective from April 1, 2015 - NOTIFICATION NO. 34/2014 [F. NO.504/08/2003-FTD-I], DATED 5-8-2014.


- CBDT constitutes Committee to appraise efficacy of dispute resolution forums; to suggest for reducing litigations - OFFICE MEMORANDUM [F.NO.279/MISC./M-84/2014-IT(TJ)], DATED 17-7-2014.

INDIRECT TAXES

Case Laws

- Department cannot hold ST demand in abeyance until service provider recovers ST dues from service recipient: Merely because there are dues from service recipient, service tax liability of assessee (service provider) cannot be kept in abeyance till service recipient pays to assessee – Sony Rebeiro v. CST [2014] 46 taxmann.com 329 (Ker).

- Department cannot demand ST from GTA service provider if its services falls under reverse charge : If assessee is providing GTA services falling under reverse charge, no demand can be raised from him – Popular Logistics v. CCE, C&ST [2014] 46 taxmann.com 435 (Ker.)

- Input/capital goods used in construction of rented property are not eligible for credit : Inputs/Capital goods used in construction of rented property are not eligible for credit, when construction was carried out by contractor availing of benefit of abatement notification – City Central Mall (Nashik) Pvt. Ltd. v. CST [2014] 47 taxmann.com 123 (Bom).

- Department could demand security from VAT dealer if it was managed by a director of another defaulting company : Where department has raised demand for security based on fears that assessee would descend into non-compliance, as assessee was being managed by a director of defaulting company, said demand of security was valid and assessee’s plea of hardship and jeopardy to his business is irrelevant – Meliform Ltd. v. CCE [2014] 46 taxmann.com 320 (MTC).

- Mere agreement for transportation of foodgrains would not amount to sale : Where under an agreement assessee had transported food grains to various places within State of Tripura by use of trucks either owned by him or arranged by him, agreement for transportation of goods did not amount to sale under VAT law – Dipak Bhattacharjee [2014] 47 taxmann.com 117 (Tripura).

- Mere department’s permission to re-export prohibited goods does not provide relief from levy of redemption fine : Merely because permission is granted to assessee to re-export prohibited goods imported by assessee, same would not mean that section 112 (penalty) or section 125 (redemption fine) would not apply – Chennai Marine Trading (P.) Ltd. v. CC [2014] 47 taxmann.com 93 (Madras).

- In case of two unconditional exemption notifications, assessee may choose beneficial one : When two exemption notifications, one granting absolute unconditional exemption and other granting unconditional partial exemption, are operative simultaneously, it is choice of assessee to opt for that notification which is more beneficial to him and provisions of excise section 5A(1A) would not apply – Arvind Ltd. v. CCE [2014] 47 taxmann.com 91 (Ahmedabad – CESTAT)
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TRANSPARENCY IN INDIAN BANKS — CONSIDERING INFORMATION ON BANK WEBSITES

A sound and well-managed bank should, in theory, benefit when it provides comprehensive, accurate, relevant and timely information on its financial condition and performance, and ability to manage and control risks.

CMA R P Gore
M R Pandit & Company, Pune
The Basel committee on banking supervision in its report in September 1998 stressed the importance of transparency as “Key element of an efficiently supervised, safe and sound banking system. On the other hand lack of transparency tends to negatively distort risk perception in the market and increases the intrinsic fragility of individual banking institution apart from bearing seeds of systematic disturbances.”

The advisory group of Banking Regulation and supervision reiterated in its report the importance of transparency. The group also considered the existing Indian circumstances/practices prevalent in banks (at that time), suggested weak areas and corrective steps. It tried to estimate time frame for the corrective steps.

Not surprising, transparency was the first priority of the RBI Governor, Dr Raghuram Rajan as discussed by him in his first press conference after assuming office on 4th September 2013.

(Presently, RBI is languishing at a bottom place at say 2 points and Sweden’s Riksbank on top with 14.5 points based on the scale of transparency based on parameters including some other than disclosures. The survey was done by Barry Eichengreen and Nergiz Dincer, published by the Bank of Korea on transparency in Central Bank for the period 2007-2010.)

After implementation of Basel III, (which is more stringent), there would have to be lot of infusion of capital into Indian Banking Industry as there might be capital inadequacy in many banks including some nationalised banks. (Particularly, where there is capital erosion due to losses or NPA’s) As Government may not be willing to take total burden on itself, there would have to be lot of money coming from the public by public subscription. Thus in those cases, the public faith/investors confidence will depend on the transparency in the banking system. The investors/creditors should be aware what risk they are taking and how much would be the returns on amounts invested.

A sound and well-managed bank should, in theory, benefit when it provides comprehensive, accurate, relevant and timely information on its financial condition and performance, and ability to manage and control risks. Such a bank should be able to access capital markets more efficiently than similar institutions that do not provide adequate disclosures. As per Basel report, the information should have characteristics, as given below, for effective transparency in banking environment (see table below).

The information can be given in printed materials/financial statements and other documents to media/public. (On yearly or Quarterly basis) After the cyber revolution, the banks have opened and operating their own sites and lot of authentic information is available on the given sites. (Possible, it may not have legal sanctity.) This information is readily available to public and would be surely helpful for transparency of the banks.

In the exercise given below the information on various banks sites is collected and used to find whether it is useful for the transparency of the banks and what are the actions required to make it useful.

Before going to specific subject, let us discuss what are the aspects peculiar of Indian Banking/Indian financial environment.

1) Ownership pattern: Taking consideration of ownership, Banks can be segregated into following categories.
- Nationalised Banks (Public Sector Banks)
- Private Banks.
- Scheduled Banks.
- Urban Co-operative Banks.
- Co-operative Banks and Rural Banks.

Out of the total banking activities, major activities are controlled by the Nationalised Banks. The interesting point is that although all the nationalised banks are owned and controlled by Government (or RBI) – One authority, they have diverse culture/working style/re-

<table>
<thead>
<tr>
<th>Sr No</th>
<th>Characteristics</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Comprehensiveness</td>
<td>The information should be complete for making meaningful evaluation of the bank by all the stakeholders</td>
</tr>
<tr>
<td>2</td>
<td>Relevance and timeliness</td>
<td>The information should be relevant for decision making and be available at the time of decision making</td>
</tr>
<tr>
<td>3</td>
<td>Reliability</td>
<td>Information should faithfully represent that which it purports to represent, complete in all respects (i.e., free from material error or bias),</td>
</tr>
<tr>
<td>4</td>
<td>Comparability</td>
<td>Banks should use consistent accounting policies and procedures from period to period, and uniform measurement concepts and procedures for related items. The basis should be uniform and reported data should be comparable</td>
</tr>
<tr>
<td>5</td>
<td>Materiality</td>
<td>Information is material if its omission or misstatement could change or influence the assessment or decision of a user relying on that information. ‘Paise’ are not material when figures goes into 100 Crores</td>
</tr>
</tbody>
</table>
ports and reporting.

There is also common feature in all the nationalised banks that as there is no ownership and no monitory incentive the bank officials and bank Directors are not having any personal interest in the results of the bank. The banks do not depend much on the private finance/ share holding for their survival and due to strong unions; the employees do not have threat of loss of the jobs. The banks also have to shoulder burden of government schemes/ loan advances waivers etc.

2. Number of Branches   Considering banks all India level, the bank branches figure reaches a staggering numbers but they are concentrated in urban areas. There are lot of villages / lot of rural India where the Banking system/banking benefit has not reached.

3. Illiteracy/computer awareness: - Sizable portion of our population is illiterate and can not use bank services. The younger and urban population is mostly computer savvy. The senior people, may be including Senior banking staff is many times averse of using computers and its related applications. Uninterrupted power supply, Technical know-how, software and hardware support are many times not available easily at all the places.

4. Electronic payment: - The effect of the above point is on Electronic payment/ the credit/ debit card through payments which is on the smaller size and we have huge cash amounts moving around in our economy which is out of banking system.

5. The RBI is playing dual role. It is owner/ owners’ representative for nationalised bank and plays regulators’ role in banking sector. It is a government bank and thus can claim limited freedom.

Considering, conditions prevalent the transparency can be seen from 3 angles.

• The Supervisory/Regulatory authority (RBI)
• The Banks
• The customers of the banks.

The flow of information has to be smooth from customers to the bank, banks to RBI and flow of instructions should be smooth from RBI to Banks and banks to customers.

However we find that customers are not forthcoming with the information to the banks with necessary clarity and truthfulness and banks may submit partial information in the MIS to RBI.

Now for this working on the transparency of banks, we have taken the financial and other details available on net (say on 15th June) as on March 2014 of following Banks.

1. Axis Bank (Private Banks)
2. IDBI bank (Private Banks)
3. ICICI bank (Private Banks)
4. State Bank of India (largest bank)
5. Union Bank of India. (one of the big nationalised bank)
6. United Bank of India. (NPA problem 2013-2014) (bank strong in eastern area)
7. Canara bank (Bank stronger in southern region)

As per recommendations made by advisory group (RBI) in say, 2000, which were to be implemented in a span of 3-4 years certain details were to be put on the public domain. It should be noted that this period was prior to implementation of core banking and popular use of internet. Hence much stress was given on published/ printed accounts and financial results as declared. Now the financial details can be available in net. Those details as required by Advisory Group should be easily available on the net.

However while going through the reports/ financial results of March 2014, pertaining to the above banks on around 15th June, we may note the following anomalies; 1. Every Bank has created its domain in a different fashion/ different places and in different form like Annual report, performance highlight, and performance analysis (sometime revised also). Thus we have to take troubles to find out same information although it is readily available.

2. Information given in different formats, period, orders (sometimes current year -> previous year and vice versa.)

The unit of measurement may be Rs 1000 in one report where as in other report of the same bank for the same period it may be ‘ in RS Lacs or Rs Crores’.

3. The materiality aspect is missing (sometimes we find the amounts in crores with details upto last paise). We find in SBI financial statement that the figure of Miscellaneous expenses is Rs 2756 Crores vis a vis the total operating expenses of Rs 13222 Crores (ie 21%).

4. If SBI can put on net their financial figures, pertaining to 31.3.2014, on 23rd May, 2014, there should not be problems for any other banks to publish in the given time. (There is not cut off point/ date for a bank to put the information on the net). It may be noted that Banks close their business on daily basis. There is core banking everywhere. For big branches, there is a concurrent audit which is throughout the year. There is a quarterly closing of the accounts done religiously. Actually for other banks, this cut off date should be brought down to 30.04.2014.

If bank needs more time for closing, it means that either the provisions are not done on accounts in regular manner / quarterly manner meticulously as required or there is some window dressing. If NPA’s are monitored on
monthly basis, there would not be shocks at the year end.

**Specific points or suggestions**

1. The Board Member’s list is available on banks sites, but no other details, qualification, experience and remuneration package is available (UBI SBI have the details). Details like qualifications, experience and pay package + incentive plus department he/she heading/responsible for are not available for senior managers. The budgets/targets are not made public. What are the achievements against the budgets/targets these are not made publics.

2. Financial parameters, as required by RBI in RBI format, were found. However its analysis part and commentary/reasoning given by the Board of Directors were not found in maximum cases. It was noted by the Advisory Group that the Board and the officials being helm of the affairs should know better about the problems, existing and forth coming than auditors and should give in the Director’s report, not only what has happened but why It has happened and what are the steps taken. In United bank, after the Net NPA jumped from Rs 2964 crores to Rs 7118 crores in one year 13-14 (jump of say 240%), one would have expected detailed analysis/explanation as to why this happened and what corrective steps are taken in their Director’s report—however except this point all the subjects under the sun are discussed!!! (In case of Cosmos bank the Board has given details in its reports on action taken against erring officials!!)

If we go by newspaper reports of Feb 14, the bank officials were claiming that it was because of wrong classification/mistake in standard asset and NPA due to software package supplied by Infosis. Banks result is normally summation of information gathered from all branches. Each branch is expected to monitor its NPA and is accountable/responsible for that. If there was mistake in system, was it not pointed out by any branch? What are the steps taken for the correction and to ensure that such mishap may not happen in future? Whether this point was raised by Internal auditors and statutory auditors? (There are chartered accountants on board of the bank)

It may be possible that all these questions may have been raised by RBI and answered by United Bank officials. But others do not know. Not only shareholders of United bank but the public has right to know it because it is Nationalised bank and the public money is going to be used as capital infusion/replacement of fund and hence the information about NPA and Restructured assets should have been put in public domain/knowledge by giving the details in directors’ report (or statutory auditors’ report—It is also clean report!)

3. The parameters, like cost per branch, income per branch are not comparable from one quarter to other, one year to other. The factors considered for the parameters are different banks are different. Employees include workers, staff and managers plus security if any. However these figures are given in different permutations and combinations by different banks. There are no benchmarks/standards developed for comparison. Whether employee cost should form 40% of the operation cost or less or more, no indications. Employee cost per employee also varies from Rs 6 Lacs to Rs 10 lacs per employee per year.

4. In NPA classification, it seems that there is some bias in working. We note that for given Quarters, the least NPA Figure is the 31st March Quarter for major Public Sector Banks. We enclose herewith data for the two years 12-13 and 13-14 where there is dip in graph in NPA in the March. Either banks have made extra efforts to reduce NPA at the yearend or some recovery/payment is arranged so that NPA is pushed to next year. In private banks this dip is not there. In each bank there is huge amount lying on account of restructured loans and advances. These are potential NPA. The restructured assets

A TRANSPARENT BANK SHOULD BE ABLE TO ACCESS CAPITAL MARKETS MORE EFFICIENTLY THAN SIMILAR INSTITUTIONS THAT DO NOT PROVIDE ADEQUATE DISCLOSURES.
of ICICI seems to be doubled where as axis bank and united bank both have substantial amounts in restructured asset.

The NPA might be on the lower side if at the time of sanctioning the loan care is taken. May be professional assistance of Cost accountant should be taken when industrial finance is being considered for sanctioning. The data must be latest when big facility is sanctioned because for bigger company to survive have to have good and prompt MIS. It has to be need based finance instead of security based (drawing limit basis) finance. There has to be month to month monitoring of the data supplied by the unit. The Cost accountants’ technical expertise can also be used in stock audits and concurrent audits.

5) One administrative point. It is noted that after spending some 34 years in his service in various capacities in Bank of Maharashtra, Mr Sanjay Arya was given an assignment of executive director of United Bank of India. Although all nationalised banks work under same umbrella, each bank has its own culture, Formats, system and practices. It must have been uncomfortable for him going from one bank to other.

Can we have a cadre of senior bank managers for nationalised banks, i.e. a pool of managers above say Dy. GM level to be pooled and used for senior positions at all the nationalised banks. This will have two benefits. Managers would get accustomed to systems and procedures of different banks, would get equipped for directorial assignments. The differences in banks culture, systems and procedures may after some time would get ironed out as better systems would prevail.

6) The RBI has got all the data published/ not published of all the banks. May be it is bound by privacy clause between itself and Banks as far as not published data but can surely compile published data on its own site. If all the banks figures are placed on one platform, it will be easy to COMPARE. It may be possible that all banks are not necessarily comparable, they may have different business pattern, different capital structure, different cost pattern but it will show that in the given conditions / given circumstances what is the best possible results, what the bank can set as a goal to achieve.

If data as above would be put on the RBI site instead of only RBI monitoring it, it may be monitored by lot of professionals and financial analysts which may help to understand any problem within shorter time./ whistle blowers. Thus bank can get services of many experts free of cost!

In the supporting sheet we have tried to compile and compare P and L figures of various banks as above, and note some points which are odd:
1) Employee cost per employee per year: Rs lacs There is wide variation from Rs 5.65 to 10.15. May be, there may be some error due to fact that we have considered year end figures where as average employee no. for given period may give accurate figure. It is intriguing to note that while the cost is lower for 2 private banks axis and icici (5.84 to 6.27) for IDBI the figures are on higher side ( from 9.28 – 10.15)
2) Exp per branch : Private banks have higher income and cost per branches –particularly idbi however we find that nationalised banks are on lower expenses bracket –united being lowest
3) Interest on balance with RBI, shows increase as well as decrease when compared with last years’ figures. Should this balance and interest on it should remain constant or it should be changing? In case of ‘others’ –income side (d) there is huge difference Canara bank in the yr 12-13 vis a vis 13-14. Is there a change of system? Accounting? Where as for all other banks there is increase in income but for icici there is reduction in income
4) In case of expenses there was wide movement/ not stable and could be analysed taking the expenses breakup–whatever possible.

Thus understanding / comparing, with intra bank standards/goals etc and with inter-banks comparison may give us good results. MA

gore_raja@gmail.com
ACTIVITY BASED MANAGEMENT – GLIMPSES OF ITS PRACTICAL APPLICATIONS

To achieve continuous improvement an organization needs to be informed. It requires timely and accurate information on the work that is being done (activities) and the objects of that work (products/customers). This is what ABC is all about.

ACTIVITY based management (ABM) is a discipline that focuses on the management of activities as the route to improving value received by the customers and the profits achieved by providing this value. (Source: CAM I)

This discipline includes
1. Cost driver analysis
2. Activity analysis and
3. Performance analysis

ABM draws on Activity based Costing (ABC) as a major source of information.

To achieve continuous improvement an organization needs to be informed. It requires timely and accurate information on the work that is being done (activities) and the objects of that work (Products/customers). This is what ABC is all about.

The key to success lies in utilising the good quality information generated from ABC to work.

In short, using ABC to improve a business is ABM. ABC and ABM are a continuum of value. ABM is the application of ABC data to manage product portfolios and business processes better. (see Exhibit 1)

Reducing cost the activity-based way
Cost cutting without restructuring the work is like putting the cart before the horse which is what traditional cost cutting has always been. This does not result in lasting reduction in costs. In contrast the heart of ABM is the activity. Cost management focuses upon performance of each activity and its use of resources. Managing activities and not some abstract measure of cost – key to permanent cost reduction.

To highlight the above point, the case study of a leading Indian auto ancillary unit has been discussed below.

Corporate profile of company
Company X’s principal activity was manufacturing and marketing of automotive components. Its products included Gasoline Systems and Products, Diesel Systems and Products, EMS System Products, Emission Control systems, high pressure Die cast Products and Precision Machined Products. The Group’s customers included Maruti, Hyundai, General Motors, Cummins, Bosch, Mikuni, TVS Motor Company, Bajaj Auto, Suzuki, Yamaha and Hero Honda motors.

The company had recently entered the CONTRACT manufacturing market and an exclusive facility was established for this purpose. This plat was devoted exclusively for manufacture of machined castings.

Plant particulars
1. Primary operations - pressure die casting
(PDC) and machining
2. Cost structure – Material cost constituted less than 35% of the total cost. The percentage of VA was very high.
3. Machined castings market – The Machined castings market was highly competitive and threat of customers shifting to new suppliers was very real. This was because there was not much technology involved and Company X’s ability to leverage the ‘QUALITY’ aspect—beyond a certain extent to impress upon customers—was limited. Most of the parts manufactured at this Plant were of ‘build to print type’. The margins were also very low and hence the scope for operational inefficiencies the least.

Consequently Company X had decided to implement an ABC system at this plant on a priority basis.

Post successful implementation and validation of ABC data (spread over a six month period) the stage was set for ABM (see Table 1).

All the Machines were Cold Chamber machines with Aluminium being the prime raw material used. In addition, due to paucity of capacity, the Plant was also outsourcing a part of its Casting requirements.

The activities in PDC Department were classified as:
I. Primary
   a. Furnace Related
   b. Machine related
   c. Fettling
   d. Shot blasting.
II. Support
   a. Die design and procurement
   b. Die and machine maintenance
   c. Machine setting up
   d. Casting inspection — R1, 2 and 3.

Cost identification to PDC activities: Methodology adopted
The mapping of costs captured for PDC cost centre was done as per Exhibit 2:

The expenses (resources) booked in PDC Cost centre

### Exhibit 1- Link between ABC and ABM

![Diagram of Activity Based Management]

Source: Peter B.B Turney - "Common Cents"
was traced to activities (For list of activities refer table 2) through Resource drivers.

Resource drivers are bases of allocation of resources to activities. They represent the best single Quantitative measure of the frequency and intensity of demands placed on a resource by the activities (see Table 2 and Exhibit 2).

Findings – Post-implementation

The activity driver rates generated threw up some interesting results: It was observed that the driver rate (cost of melting per kg) for the 250 T furnace and machine was consistently more than that for the 400 T furnaces and machines after duly factoring the utilization aspect. (Refer exhibit 3 and 4 and table 3). This was contrary to conventional Industry norms. As per industry norms casting rates were quoted in terms of per kg or per shot. The per kg and per hour norms were Rs 25 and Rs 30 per kg and Rs 1200 and Rs 1500 per hour. (note: rates furnished are composite rates covering both furnace and machines) The normal expectation was that the driver rates for 400 T furnace and machines were expected to be higher when compared to that of 250 T (see Table 3 and Exhibit 3).

The above results came as a surprise to the PDC Operations team. A task force (cross functional team) consisting of Costing, PDC and Plant engineering and QC team members was set up to investigate the reasons.

The investigation revealed the following as the reasons for the abovementioned anomaly in rates:

1. Furnace size and heat retention technology

   It was observed that the holding furnaces for both categories of machines (250 and 400T) were of the same size and dimension. Further it was observed that the number of rounds the copper coil was wound for heat retention was the same for both categories.

2. Product mix (weight of castings produced)

   The average weight of castings produced from 250 T machine was around 200 Gms. The average weight in case of 400 T machines was observed to be around 750 Gms.

   The above two findings led to the following questions being asked

   1. Can the size of the furnace or the number of coils being wound in the furnace of 250T be reduced? The answer was affirmative.

   2. Relevance of Product mix on furnace and machine rates? It was observed that the average amount of molten metal in the 250T machine furnace was substantially higher than the average molten metal lying in the 400T machine furnaces. This was due to the higher amount of metal being displaced each time a part is moulded in the 400T as compared to 250T (reason - average weight of parts). The higher volume of retained molten metal obviously resulted in greater power consumption for 250T furnace as compared to 400T given that all other technical parameters between the 2 furnaces were virtually identical.

Follow-up action

The plant team and the top management were pleasantly surprised by the findings. Follow up action along the fol-

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**Table 1**

<table>
<thead>
<tr>
<th>Machine</th>
<th>No. off</th>
<th>Melting Furnace</th>
<th>Holding Furnace</th>
</tr>
</thead>
<tbody>
<tr>
<td>250 Tonne</td>
<td>1</td>
<td>Electric fired</td>
<td>Electric fired</td>
</tr>
<tr>
<td>400 Tonne</td>
<td>4</td>
<td>Electric fired</td>
<td>Electric fired</td>
</tr>
<tr>
<td>900 Tonne combined melting and holding furnace</td>
<td>1</td>
<td>Diesel and gas fired — combined melting and holding furnace</td>
<td></td>
</tr>
<tr>
<td>Runner cutting machines</td>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shot blasting machines</td>
<td>2</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Table 2**

<table>
<thead>
<tr>
<th>S No.</th>
<th>Activity</th>
<th>Resource driver</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Furnace (melting and holding)</td>
<td>Volume of Aluminium melted (in kgs)</td>
</tr>
<tr>
<td>2</td>
<td>Die casting m/cs</td>
<td>Machine hours operated</td>
</tr>
<tr>
<td>3</td>
<td>Shot blasting</td>
<td>Surface area of casting</td>
</tr>
<tr>
<td>4</td>
<td>Die set up and Maintenance</td>
<td>Set up/Maintenance hours</td>
</tr>
</tbody>
</table>
Following lines was initiated
• Reduction in furnace size – this was done during the next cycle of crucible replacement in furnaces.
• Reduction in the number of copper windings
• Non-critical and lower weight parts manufactured in 250T machine were outsourced. Optimal production mix (taking into account weight and criticality of the parts) was devised and implemented in 250T machine

Post this revamping a significant reduction in cost driver rates for 250T machine was noticed. The Plant team was able to achieve a reduction of close to 25% in rate/kg for 250 T furnace post modifications. Due to optimization of Product mix on the machine there was an improvement in machine utilization and rate too.

The valuable lessons learnt were also put to use in the other die casting units of the company.

ABM also supports the quest for continuous improvement by allowing management to gain new insights into activity performance by focusing attention on the sources of demand for activities and by permitting management to create behavioural incentives to improve one or more aspects of the business.

### References
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2. Activity Based management - An overview (CIMA – April 2001)
3. Implementing Activity Based Management in Daily Operations, J A Miller

Jayaram.r@shriramvalue.com

<table>
<thead>
<tr>
<th>Table 3: Machine HR rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Months</td>
</tr>
<tr>
<td>May</td>
</tr>
<tr>
<td>June</td>
</tr>
<tr>
<td>July</td>
</tr>
<tr>
<td>August</td>
</tr>
<tr>
<td>September</td>
</tr>
<tr>
<td>October</td>
</tr>
<tr>
<td>November</td>
</tr>
</tbody>
</table>

Note: October data was excluded (exceptional month)
Exhibit 3

250 T - Furnace Cost/kg

Cost

<table>
<thead>
<tr>
<th>Month</th>
<th>Series1</th>
</tr>
</thead>
<tbody>
<tr>
<td>May</td>
<td>16.66</td>
</tr>
<tr>
<td>June</td>
<td>13.44</td>
</tr>
<tr>
<td>July</td>
<td>11.20</td>
</tr>
<tr>
<td>August</td>
<td>12.53</td>
</tr>
<tr>
<td>September</td>
<td>15.10</td>
</tr>
<tr>
<td>October</td>
<td>12.00</td>
</tr>
<tr>
<td>November</td>
<td>16.86</td>
</tr>
</tbody>
</table>

Exhibit 4

400 T - Furnace Cost/kg

Cost

<table>
<thead>
<tr>
<th>Month</th>
<th>Series1</th>
</tr>
</thead>
<tbody>
<tr>
<td>May</td>
<td>10.65</td>
</tr>
<tr>
<td>June</td>
<td>10.61</td>
</tr>
<tr>
<td>July</td>
<td>7.25</td>
</tr>
<tr>
<td>August</td>
<td>8.79</td>
</tr>
<tr>
<td>September</td>
<td>10.12</td>
</tr>
<tr>
<td>October</td>
<td>12.68</td>
</tr>
<tr>
<td>November</td>
<td>9.97</td>
</tr>
</tbody>
</table>
FOREIGN DIRECT INVESTMENT IN THE TELECOM SECTOR

Given that most domestic operators are facing declining or stagnating revenues and high debt, FDI is being looked upon as a key contributor to meet the sector’s investment targets. But the government needs to bring more clarity in its policies related to regulation, licencing and taxation.

CMA Dr M. Govindarajan
Sr. Accounts Officer, BSNL, Madurai
Investment is usually understood as financial contribution to the equity capital of an enterprise or purchase of shares in the enterprise. ‘Foreign investment’ is an investment in an enterprise by a Non resident irrespective of whether this involves new equity capital or re-investment of earnings. Foreign investments is of two kinds—

• Foreign Direct Investment; and

• Foreign portfolio management.

International Monetary Fund (IMF) and Organization for Economic Co-operation and Development (OECD) define FDI similarly as a category of cross border investment made by a resident in one economy (the direct investor) with the objective of establishing a ‘lasting interest’ in an enterprise (the direct investment enterprise) that is resident in an economy other than that of a direct investor.

It is the policy of the Government of India to attract and promote productive FDI from non residents in activities which significantly contribute to industrialization and socio-economic development. FDI supplements the domestic capital and technology.

India’s economic reform is supported by Foreign Direct Investment both into and outside India. Since 1991, economic reforms are being introduced in many phases. As a first step to attract more foreign investment, industrial licensing was abolished for all except 18 industries under the Industries (Development and Regulation) Act, 1951. Further in 1991, the number of sectors reserved for the public sector was reduced to eight as government wanted to have control only in railway, atomic energy, defense and other core sectors. Further no prior permission was needed to be obtained for investment in MRTP—designated companies in India since 1991.

Since 1991, both FDI and Portfolio investment have been liberalized. Foreign Institutional Investors (FIIs) have been permitted to invest in shares of listed companies in the Indian stock market from 1993 onwards. In 1991, automatic approval for FDI projects with up to 51% of the foreign equity in 34 specified sectors was introduced. Now, FDI is being allowed in almost all sectors except gambling, lottery, retail trade (except single brand), defence, atomic energy and railways. Now many sectors have opened for 100% foreign ownership without Indian Government prior approval. Service sectors, led by insurance, telecommunication and information technology outperformed their sectors.

Foreign Direct Investment (FDI) is now recognized as an important driver of growth in the country. Government is, therefore, making all efforts to attract and facilitate FDI and investment from Non Resident (NRIs) including Overseas Corporate Bodies (OCBs) that are predominantly owned by them, to complement and supplement domestic investment. To make the investment in India attractive, investment and returns on them are freely repatriable, except where the approval is subject to specific conditions such as lock-in period on original investment, dividend cap, foreign exchange neutrality, etc. as per the notified sectoral policy.

Foreign direct investment is freely allowed in all sectors including the services sector, except a few sectors where the existing and notified sectoral policy does not permit FDI beyond a ceiling. FDI for virtually all items/activities can be brought in through the Automatic Route under powers delegated to the Reserve Bank of India (RBI), and for the remaining items/activities through Government approval. Government approvals are accorded on the recommendation of the Foreign Investment Promotion Board (FIPB).

Automatic route
FDI up to 100 per cent is allowed under the automatic route in all activities/sectors except where the provisions of the consolidated FDI Policy on ‘Entry Routes for Investment’ are attracted. FDI in sectors/activities to the extent permitted under the automatic route does not require any prior approval either of the Government or Reserve Bank of India.

Government route
FDI in activities not covered under the automatic route requires prior approval of the Government which is considered by the FIPB, Department of Economic Affairs, Ministry of Finance. Indian companies having foreign investment approval through FIPB route do not require any further clearance from the RBI for receiving inward remittance and for the issue of shares to the non-resident investors.

Economic benefits of FDI
Opening up of markets have given immense opportunities to business leaders in India to capture the opportunities over the globe. The fast rising economic performance of Indian Economy has created an environment of optimism on the part of the investors to invest more. Indian Industries in the fields of information and Technology, Steel, Textile, Software and some others have brought tremendous success for the country. Attracting foreign direct investment (FDI) has become a key part
of national developmental strategies for many countries. While many highlight FDI’s positive effects, others blame FDI for “crowding up” domestic investment and lowering certain regulatory standards. The effect of FDI can sometimes barely be perceived, while at other times these can be absolutely transformative. While impact depends on many conditions, well-developed and implemented policies can help maximize its gains.

The following are the major impact of FDI in the host countries:

- Faster economic growth;
- Increase in trade;
- Employment and skills levels; and
- Technology diffusion and knowledge transfer; and linkages and spillover to domestic firms.

FDI and growth of GDP

At the moment Indian Economy’s GDP is sizzling and foreign businessmen and investors are swarming to Bangalore and Mumbai to grab a piece of the action. The foreign direct investment towards various sectors affected the Indian economy at significant level. Over the past four years the GDP of Indian Economy has clocked up an average annual pace of more than 8%, compared with around 6% in the 1980s and 1990s and a measly 3.5% during the three decades before 1980, when highly interventionist policies shackled the economy.

FDI in telecom

Indian telecommunications sector is the second largest wireless network in the world after China. The telecommunications sector is growing at a very fast pace in India. Huge investment is required for the operators in Telecom industry. FDI is the best solution for financing the telecom industry. Now the telecom sector is also the second highest FDI attracting sectors in India, attracting 6.26% of the total FDI inflows into India during Apr 2000 to October 2013. The amount of FDI attracted by telecommunications sector during this period was US$ 12889 billion, according to DIPP (Department of Industrial Policy and Promotion) statistics.

Investment policy

The Telecom Regulatory Authority of India (TRAI) encourages competition in the telecom sector together with better quality and affordable prices in order to meet the objectives of New Telecom Policy, 1999. A number of regulations and directions have been issued by TRAI recently to meet this goal like the Telecommunication Mobile Number Portability Regulation 2010, Spectrum Management and Licensing Framework, efficient Utilization of Numbering Resources, National Broadband Plan and Telecom Commercial Communications Customer Preference Regulations, 2010 etc.

The Department of Telecommunications (DOT) under the Ministry of Communications and Information Technology is the concerned authority for all matters relating to telecom. The department is responsible for-

- formulating the developmental policies;
- granting licenses for various telecom services;
- promoting standardization, research and development as well as private investment in the sector.

Phases in FDI

Whilst DoT insisted in the first auctions of 1992-96 that bidders for the licence auctions of the 1990s must have a foreign partner, there were not all that many telecom operators available abroad. Only a few countries had liberalized the telecommunications system enough to privatize their national operation, allow competition and let their telecommunications companies invest abroad.

Many of the companies such as Bell Canada, Telstra (Australia), NTT (Japan), Swiss PTT, Malaysia Telecom, Philippines Telecom, France Telecom and Stel (Italy) took stakes in Indian operations. The disastrous financial performance of the operators made their foreign partners keen to exit. The Telecom Policy 1994 paved the way for FDI participation up to 49% in Telecom industry. The new Telecom Policy 1999 improved the finances of cellular companies, many were sold off; foreign direct investors generally divested as part of sales. After its introduction, the Government, no longer insisted in foreign partners; so the big cellular conglomerate that emerged bought out the foreign equity holders.

In 2005 India had raised the FDI in telecom services companies from 49% to 74% because it believed that the vast investments the industry would need, if it continued to expand at the then rate, could not be raised domestically and substantial investment inflows would be necessary. India’s telecom had seen growths of unprecedented magnitudes. At one of point, it even helped resurrect the fortunes of a global giant like Vodafone. It almost looked as if India’s Telecom story could never go wrong.

The telecom industry was reeling under huge debt and has additional capex requirements for 3G and 4G new technologies adoption. Some of the operators could not able expand their operations due to shortage of funds.
The debt burden on the industry is about Rs.2.5 million. The industry, which was among the major attractions for FDI witnessed the biggest fall in such investments among various sectors during April 2011 – January 2012. The uncertain regulatory environment regarding spectrum auctions, the one time spectrum fee and retrospective amendments, intense competition and low profitability have impacted market growth.

Following the cancellation of 2G licences by the Supreme Court in February 2012, FDI inflow into the industry has reduced significantly. International telecom players, which had acquired stakes in domestic companies at high valuations during the peak of the telecom revolution in the country, incurred huge losses after the companies were forced to close operations.

In June 2013, a panel headed by a senior finance ministry official had proposed that higher foreign investment be allowed in sectors like defence, telecom, retail and commodity exchanges to receive investments and attract long term investment. At present 74% to 100% FDI is permitted for various telecom services. 100% FDI is permitted in the area of telecom equipment manufacturing and provision of IT enabled services. This has made telecom one of major sectors attracting FDI inflows in India.

For Basic and cellular, Unified Access Services, National/International Long Distance, V-Sat, Public Mobile Radio Trunked Services (PMRTS), Global Mobile Personal Communications Services (GMPCS) and other value added telecom services – FDI up to 74% (including FDI, FII, NRI, FCCBs, ADRs, GDRs, convertible preference shares, and proportionate foreign equity in Indian promoters/ Investing Company) is permitted. FDI up to 49% is permitted under automatic route and beyond 49% by relevant FIPB guidelines.

For ISP (with gateways), end to end bandwidth and Radio Paging Service – FDI up to 74% is permitted subject to licensing and security requirements. Here also, FDI up to 49% is permitted under automatic route and beyond 49% by FIPB guidelines.

For ISP without gateway, Infrastructure Providers providing dark fibre, right of way, duct space, Tower (Category-I), Electronic Mail and Voice Mail – FDI up to 100% is allowed subject to the conditions that such companies would divest 26% of their equity in favour of Indian public in 5 years, if these companies are listed in other parts of the world. Again, FDI up to 49% is permitted under automatic route and beyond 49% by FIPB guidelines.

For manufacture of Telecom Equipments – FDI up to 100% is allowed through automatic entry route.

**Mergers and acquisitions**

FDI in the telecom industry paved the way for mergers and acquisitions for synergy of the industry. A series of acquisitions by global players, starting 2007, when the UK-based Vodafone acquired Hutchison; Sistema, Norway’s Telenor, UAE’s Etisalat, the Bahrain Telecommunication company and Japan’s NTT Docomo made acquisitions. 100% FDI will be helpful for more mergers and for the consolidation of the telecom market. The DoT is yet to finalize the merger and acquisition guidelines (see table below).

**Security concerns**

Under the earlier norms, there were a number of security-related provisions. These have now been scrapped. The following are the security conditions-

- The Chief Officer in charge of technical network operations and the Chief Security Officer should be a resident Indian citizen;

### MERGERS AND ACQUISITIONS IN THE TELECOM INDUSTRY

<table>
<thead>
<tr>
<th>Acquirer</th>
<th>Target</th>
<th>Stake (%)</th>
<th>Year</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vodafone Plc</td>
<td>Hutchison Essar</td>
<td>67.00</td>
<td>2007</td>
<td>$11.1 billion</td>
</tr>
<tr>
<td>Etisalat</td>
<td>Swan Telecom</td>
<td>45.00</td>
<td>2008</td>
<td>$900 million</td>
</tr>
<tr>
<td>Batelco</td>
<td>S.Tel</td>
<td>49.00</td>
<td>2008</td>
<td>$225 million</td>
</tr>
<tr>
<td>Telenor SA</td>
<td>Unitech Wireless</td>
<td>33.50</td>
<td>2008</td>
<td>Rs.12.5 billion</td>
</tr>
<tr>
<td>Sistema JSFC</td>
<td>Shyam Telelinks</td>
<td>10.00</td>
<td>2008</td>
<td>$11.4 billion</td>
</tr>
<tr>
<td>Sistema JSFC</td>
<td>Shyam Telelinks</td>
<td>46.68</td>
<td>2008</td>
<td>-</td>
</tr>
<tr>
<td>NTT DOCOMO</td>
<td>TTSL</td>
<td>26.00</td>
<td>2008</td>
<td>$2.7 billion</td>
</tr>
<tr>
<td>Telenor SA</td>
<td>Unitech Wireless</td>
<td>15.50</td>
<td>2009</td>
<td>Rs.11.3 billion</td>
</tr>
<tr>
<td>Telenor SA</td>
<td>Unitech Wireless</td>
<td>11.10</td>
<td>2010</td>
<td>Rs.14.93 billion</td>
</tr>
<tr>
<td>Telenor SA</td>
<td>Unitech Wireless</td>
<td>7.15</td>
<td>2010</td>
<td>Rs.22.2 billion</td>
</tr>
</tbody>
</table>

*Source: tele.net April 2013 journal.*
## Financial Year wise FDI Equity Inflows from April 2000 to October 2013

### TELECOM INDUSTRY

<table>
<thead>
<tr>
<th>Sl.No.</th>
<th>Financial Year</th>
<th>FDI (in Rs. Crores)</th>
<th>FDI (in US$ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2000-01</td>
<td>784.16</td>
<td>177.69</td>
</tr>
<tr>
<td>2</td>
<td>2001-02</td>
<td>3938.46</td>
<td>873.23</td>
</tr>
<tr>
<td>3</td>
<td>2002-03</td>
<td>907.73</td>
<td>191.60</td>
</tr>
<tr>
<td>4</td>
<td>2003-04</td>
<td>397.84</td>
<td>86.49</td>
</tr>
<tr>
<td>5</td>
<td>2004-05</td>
<td>541.10</td>
<td>118.33</td>
</tr>
<tr>
<td>6</td>
<td>2005-06</td>
<td>2751.45</td>
<td>617.98</td>
</tr>
<tr>
<td>7</td>
<td>2006-07</td>
<td>2149.58</td>
<td>476.54</td>
</tr>
<tr>
<td>8</td>
<td>2007-08</td>
<td>5099.56</td>
<td>1260.70</td>
</tr>
<tr>
<td>9</td>
<td>2008-09</td>
<td>11684.81</td>
<td>2548.63</td>
</tr>
<tr>
<td>10</td>
<td>2009-10</td>
<td>12269.66</td>
<td>2539.26</td>
</tr>
<tr>
<td>11</td>
<td>2010-11</td>
<td>7542.04</td>
<td>1664.50</td>
</tr>
<tr>
<td>12</td>
<td>2011-12</td>
<td>9011.53</td>
<td>1997.24</td>
</tr>
<tr>
<td>13</td>
<td>2012-13</td>
<td>1654.30</td>
<td>303.87</td>
</tr>
<tr>
<td>14</td>
<td>2013-14 (Apr-Oct)</td>
<td>197.16</td>
<td>32.52</td>
</tr>
</tbody>
</table>

**GRAND TOTAL**

|              | 58929.38 | 12888.58 |

Source: www.dot.gov.in

Note: Amount includes the inflows received through SIA/FIPB route, acquisition of existing shares and RBI’s automatic route only.

## COUNTRY-WISE FDI EQUITY INFLOWS

### FROM APRIL 2000 – OCTOBER 2013

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Name of the country</th>
<th>In Rs. Crores</th>
<th>In US $ million</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Mauritius</td>
<td>41,136.65</td>
<td>9,045.35</td>
<td>70.18</td>
</tr>
<tr>
<td>2</td>
<td>Singapore</td>
<td>7,136.97</td>
<td>1,538.41</td>
<td>11.94</td>
</tr>
<tr>
<td>3</td>
<td>Russia</td>
<td>1,902.39</td>
<td>394.48</td>
<td>3.06</td>
</tr>
<tr>
<td>4</td>
<td>Japan</td>
<td>1,567.47</td>
<td>320.41</td>
<td>2.49</td>
</tr>
<tr>
<td>5</td>
<td>U.S.A</td>
<td>1,283.07</td>
<td>280.74</td>
<td>2.18</td>
</tr>
<tr>
<td>6</td>
<td>Cyprus</td>
<td>1,186.64</td>
<td>253.00</td>
<td>1.96</td>
</tr>
<tr>
<td>7</td>
<td>United Kingdom</td>
<td>1,098.74</td>
<td>242.11</td>
<td>1.88</td>
</tr>
<tr>
<td>8</td>
<td>Germany</td>
<td>423.15</td>
<td>100.16</td>
<td>0.78</td>
</tr>
<tr>
<td>9</td>
<td>Netherlands</td>
<td>376.89</td>
<td>84.82</td>
<td>0.66</td>
</tr>
<tr>
<td>10</td>
<td>UAE</td>
<td>230.40</td>
<td>48.81</td>
<td>0.38</td>
</tr>
<tr>
<td>11</td>
<td>British Virginia</td>
<td>223.64</td>
<td>47.77</td>
<td>0.37</td>
</tr>
<tr>
<td>12</td>
<td>Australia</td>
<td>185.67</td>
<td>41.43</td>
<td>0.32</td>
</tr>
<tr>
<td>13</td>
<td>Spain</td>
<td>174.49</td>
<td>39.52</td>
<td>0.31</td>
</tr>
<tr>
<td>14</td>
<td>Hong Kong</td>
<td>115.80</td>
<td>25.59</td>
<td>0.20</td>
</tr>
<tr>
<td>15</td>
<td>South Korea</td>
<td>93.91</td>
<td>20.43</td>
<td>0.16</td>
</tr>
<tr>
<td>16</td>
<td>Thailand</td>
<td>73.51</td>
<td>17.10</td>
<td>0.13</td>
</tr>
<tr>
<td>17</td>
<td>France</td>
<td>70.84</td>
<td>17.04</td>
<td>0.13</td>
</tr>
<tr>
<td>18</td>
<td>Sweden</td>
<td>67.60</td>
<td>15.66</td>
<td>0.12</td>
</tr>
<tr>
<td>19</td>
<td>Italy</td>
<td>61.98</td>
<td>13.90</td>
<td>0.11</td>
</tr>
<tr>
<td>20</td>
<td>New Zealand</td>
<td>56.89</td>
<td>12.31</td>
<td>0.10</td>
</tr>
<tr>
<td>21</td>
<td>Cayman Islands</td>
<td>53.05</td>
<td>11.60</td>
<td>0.09</td>
</tr>
<tr>
<td>22</td>
<td>Switzerland</td>
<td>47.19</td>
<td>10.30</td>
<td>0.08</td>
</tr>
<tr>
<td>23</td>
<td>South Africa</td>
<td>40.78</td>
<td>8.44</td>
<td>0.07</td>
</tr>
</tbody>
</table>
### SECTOR-WISE FDI EQUITY INFLOWS
#### FROM APRIL 2000 TO OCTOBER 2013

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Sector</th>
<th>Amount of FDI inflows</th>
<th>Percentage of total inflow</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>(in Rs. Crores)</td>
<td>(in US $ billion)</td>
</tr>
<tr>
<td>1</td>
<td>Telecommunication</td>
<td>19,325.26</td>
<td>4,271.19</td>
</tr>
<tr>
<td>2</td>
<td>Radio Paging</td>
<td>27.30</td>
<td>5.93</td>
</tr>
<tr>
<td>3</td>
<td>Cellular Mobile/Basic Telephone Serviceds</td>
<td>29,785.91</td>
<td>6,488.007</td>
</tr>
<tr>
<td>4</td>
<td>Others</td>
<td>9,750.91</td>
<td>2,123.39</td>
</tr>
<tr>
<td></td>
<td><strong>GRAND TOTAL</strong></td>
<td><strong>58,929.38</strong></td>
<td><strong>12,888.58</strong></td>
</tr>
</tbody>
</table>

Source: www.dot.gov.in

- Details of infrastructure/network diagram (technical details of the network) could be provided on a need basis only to telecom equipment suppliers/manufacturers and the affiliate/parents of the licencee company. Clearance from the licensee (Department of Telecommunications) would be required if such information is to be provided to anybody else;
- For security reasons, domestic traffic of such entities as may be identified/specified by the licensor shall not be hauled/routed to any place outside India;
• The licensee company shall take adequate and timely measures to ensure that the information transacted through a network of the subscribers is secure and protected;
• The officers/officials of the licensee companies dealing with the lawful interception of messages will be resident Indian citizens;
• The majority directions on the Board of the Company shall be Indian citizens;
• The position of the Chairman, Managing Director, Chief Executive Officer (CEO) and/or Chief Financial Officer (CFO), if held by foreign nationals, would require to be security vetted by Ministry of Home Affairs (MHA). Security vetting shall be required periodically on yearly basis. In case something adverse is found during the security vetting the direction of MHA shall be binding on the licensee;
• The company shall not transfer the following to any person/place outside India:
   Any accounting information relating to subscriber (except for international roaming/billing) (Note – it does not restrict a statutorily required disclosure of financial nature); and
   User information (except pertaining to foreign subscribers using Indian Operator's network while roaming);
• The company must provide traceable identity of their subscribers. However, in case of providing service to roaming subscriber of foreign companies, the Indian company shall endeavor to obtain traceable identity of roaming subscribers from the foreign company as a part of its roaming agreement;
• On receipt of the licensor or any other agency authorized by the licensee, the telecom service provider should be able to provide the geographical location of any subscriber (BTS location) at a given point of time;
• The Revenue Access (RA) to Network would be provided only to approved location(s) abroad through approved location(s) in India. The approval for location(s) would be given by the Licensor (DoT) in consultation with the Ministry of Home Affairs;
• Under the circumstances should any RA to the suppliers/manufacturers and affiliated be enabled to access Lawful Interception System (LIS), Lawful Interception Monitoring (LIM), Call contents of the traffic and such sensitive sector/data, which the licensor may notify from time-to-time;
• The licensee company is not allowed to use remote access facility for monitoring of content;
• Suitable technical device should be made available at Indian and to the designated security agency/licensor in which a mirror image of the remote access information is available in line for monitoring purposes;
• Complete audit trail of the remote access activities pertaining to the network operated in India should be maintained for a period of six months and provided on request to the licensor or any other agency authorized by the licensor;
• The telecom service providers should ensure that necessary provision (hardware/software) is available in these equipment for doing the Lawful interception and monitoring from a centralized locations;
• The telecom service providers should familiarize/train Vigilance Technical Monitoring (VTM) security agency officers/officials in respect of relevant operations/features of their systems;
• It shall be open to the licensor to restrict the Licencee Company from operating in any sensitive area from the National Security angle;
• In order to maintain the privacy of voice and data, monitoring shall only be upon authorization by the Union Home Secretary of Home Secretaries of the States/Union Territories;
• For monitoring traffic, the licensee company shall provide access of their network and other facilities as well as to books of accounts to the security agencies;
• The aforesaid security conditions shall be applicable to all the licensee companies operating telecom services covered under the circular irrespective of the level of FDI;
• Other Service Providers (OSPs) providing services like Call Centers, Business Processing Outsourcing (BPO), tele-marketing, tele-education, etc., and are registered with DoT as OSP. Such OSP's operate the service using the telecom infrastructure provided by licensed telecom service providers and 100% FDI is presented for OSPs. As the security conditions are applicable to all licensed telecom service providers, the security conditions mentioned above shall not be separately enforced on OSPs.

The new rules, while permitting 100 per cent FDI want the operating company to fulfill licence conditions as contained in Chapter VI of the licence agreement. What now has been stated for security conditions for licensee as well as investors is as notified by the Department of Telecommunications from time to time.

While 49 per cent FDI has been permitted through the direct route, anything above that will have to go through the Foreign Investment Promotion Board. The
new relaxed rules make things easier for investors at the time of taking approval from the FIPB.

**Impact of 100% raise in FDI**

According to Cellular Association of India, the industry is mired into the debt of 1.86 lakh crores and could only attract less than 9% of the total FDI that came in last 12 years in the country. The move of increasing FDI limit to 100% will act as a catalyst in reducing the debt. It is expected to open the route for fresh investments and would attract more overseas investors at a time when operators are struggling with their capex based investments.

The idea behind the decision to increase FDI limit in telecom industry is to help the industry in getting fresh funds to lower financial burden. The move also brings relief for foreign partners in telecom companies as they can have complete ownership of the business. Foreign investors will no longer need to partner with Indian investors in order to comply with regulatory authorities.

“The impact will be limited since the problems faced by telecom companies are to do with regulation and licensing not investment per se. Some tower companies which are 100% foreign owned (e.g. American Tower) could benefit. They do not require licences. However, they would have been obliged to dilute ownership if the government required them to obtain Unified Licences, as the TRAI has recommended,” says telecom analyst Mahesh Uppal.

The Telecom Commission plans to establish the Telecom Finance Corporation (TFC) to address the sector’s funding challenges. It is proposed to be set up on the lines of financing bodies such as the Power Financing Corporation and the Tourism Finance Corporation of India. The proposed TFC would aim at providing Rs.380 billion of funds over a five year period.

**Conclusion**

Opening the FDI up to 100% is not sufficient for industry and additional measures like allowing inter operator 3G roaming to accelerating MVNOs must be taken to help India based players to offset the debt burden they are pressured with. The government is targeting an investment of Rs.9.41 trillion in telecom in the 12th Plan (2012-17). Of this Rs.8.71 trillion would be contributed by the private sector. Given that most domestic operators are facing declining or stagnating revenues and high debt, FDI is being looked upon as a key contributor to meet the sector’s investment targets. The government needs to bring more clarity in its policies related to regulation, licencing and taxation. Taking lessons from 2G scam, the allocations have to be made in more transparent manner. Tussle over the inter-circle roaming, licence renewals and other issues are unlikely to send a positive message outside.

**Reference:**
1. www.dot.gov.in
2. www.trai.gov.in
3. Tele.net journals

 govind.ayyan@gmail.com
IN the last two decades, globalization has happened at a very rapid pace. New economies have emerged, new markets have developed and corporates have recognized such shifts and capitalized on them by entering into these markets. Corporate have started expanding their market reach and customer base and are in constant pursuit of effectiveness by lowering their costs, and increase revenue. Their supply chains become increasingly complex due to rigorous trades within their group companies.

Among several cost components tax expenditure is one of the important components for the corporate. Different tax laws and tax structures exist in different countries. Tax authorities are under tremendous pressure to realize more tax revenue to fund the development activities and reduce fiscal deficit. Multinational corporations try to take the tax advantages by manipulating the transfer prices from one subsidiary to another. PwC (2011)\(^1\) shows that almost 2/3rd of the world trade between related companies has direct impact on the company and the tax authorities.

Picciotto (1997) states that, all nations have their own arguments and bargain to secure their national interest and it is very difficult to reach at a common ground between counterparts, lawmakers and diplomats. True sense of globalization would be achieved when there is a complete harmonization of legal regime which covers matters of international concern. If we extrapolate the same to International Transfer Pricing, this would mean establishing a regime which is common to all, transgressing the conflict between regulators and corporate.

Elliot and Emmanuel (2000) define international transfer pricing (ITP) “as the monetary value of goods, services and intangibles, which are traded between the units of the same group of companies across national boundaries”.

International transfer pricing has a deep root in both political economics and accounting. Political economy determines the level of investment in a country and affects the law making process. Accounting measures indicate the methods of which are used to employ transfer
pricing techniques, understanding the arm-length principle, valuation of goods and services that are transferred and determine the income allocation to various sub-units. Trade of intangible and service transfer pricing is always a prime area of disagreement between regulator and corporate. In this essay, I shall touch upon both accounting and regulatory aspect of international transfer pricing.

Economic
International Transfer Pricing (ITP) has significant effect on both macroeconomic and microeconomic factors which directly affect the MNCs. Also it covers the most vital tax issues which an MNC has to deal with. This issue become more important considering the flow of foreign direct investment (FDI) in the global economy (Elliot and Emmanuel, 2000). MNCs have increasingly forayed into developing and transitional economy to widen their market share and achieve economies of scale. Such markets are highly profitable and very cost effective. As per UNCTAD 2012 published data, the FDI inflows to transition and developing countries increased by a combination of 36% as against 21% to developed countries. It is also reported that transition and developing countries jointly account for 51% of global FDI. The number of parents firms and number of foreign affiliates have gone up by several folds in the past 15 years.

It would be interesting to look at the business done by MNCs and as reported by UNCTAD 2013, that in 2012 MNCs employed around 69 million people and generated $28 trillion in sales and added value to the tune of $7 trillion. This is almost 9% increase from the reported figure of 2011. UNCTAD 2013 also reports MNCs are holding record cash and cash equivalent which are not been channelized to investment yet. Once they start investing in we may witness a surge in FDI.

If we look at the similar kind of statistic for the four BRIC countries namely Brazil, Russia, India and China, in the recent past, only for the year 2010, the increase is far more than the global average.

Anandanrajan et. al. (2007) observed MNCs are aggressively expanding their operation worldwide, especially in transitional economies like China, India, Egypt etc. as they are primarily motivated by the profit maximization objective and hence have chosen to establish permanent establishment in the above countries where the labor and raw material costs are relatively low. The production is then exported to European and North American markets and sold at a higher price. Kant (1995) shows that significant part of FDI is in horizontally integrated activities and also states that large part of the internal trade are now conducted between units of MNCs.

Accounting
MNCs are primarily driven by profit motive hence it becomes very important for them to strategically allocate income and incentives amongst its various units (Bastian 2006). Martinson & McKee (2001) point out that MNCs are becoming more decentralized in search of increase market share and higher competitions. They also mention that in relation to global operations and accountability three issues must be adhered while determining the transfer pricing namely, goal congruence, efficient allocation of resources and evaluation of performances.

Management accountant must carefully determine the transfer pricing method they use for the purpose of arriving at the transfer price which they charge on the movement of products and services within their group. A firm can select the best transfer pricing methods based on the nature and operations of the firm.

The Arms Length Principle (ALP)
By definition, the accounting methods which are acceptable to the tax authorities are the one that comply with the Arm Length Principle (ALP). This principle is

| Table.1 |
| Year | No. of Parents Firms | No. of Foreign Affiliates |
| 1997 | 44500 | 275000 |
| 2005 | 78817 | 794984 |
| 2010 | 103786 | 892114 |

| Table.2. |
| Year | No. of Parents Firms | No. of Foreign Affiliates |
| Brazil | 243 | 4547 |
| Russia | 116 | 2139 |
| India | 1076 | 2033 |
| China | 12000 | 434248 |
considered to be the gold standard since 1934 and being used to determine the value of the cross border transaction executed within the company. The principle requires valuing the transactions between units of MNCs at a price which are charged for similar transactions between unrelated parties. The Internal Revenue Service (IRS) and Organization for Economic Co-operation and Development (OECD)\(^2\) have extended their consensus that all related party transactions must be based on application of ALP. The IRS and OECD regulations lay down the various methods which can be used by MNCs to quantify their intra group transactions. These methods are called acceptable transfer pricing methods. The acceptable transfer pricing methods can be classified into two broad categories – (a) transaction based method and (b) profit based methods.

### Transaction-based method
This method aims to draw a comparison between the prices charged between related parties with the price charged in a comparable transaction between unrelated parties. Again under the transaction based method, there are three ways to determine the ALP. First, the comparable uncontrolled price, where we compare the price charge for sales between unrelated parties for a similar transaction. The most accurate price can only be determined when the circumstances in which the deal has surfaced are similar to one between the related parties. These circumstances could be the timing of the transaction or terms on which the deal has been accepted. The drawback of this method is that it is difficult to find a transaction which can be termed as similar in open market.

The second method call the resale price, in which the buyer must pay an order to allow to realize a gross margin which is comparable to that earned by other companies on a similar transaction. The drawback of this method is that the entire gross margin information cannot be relied upon correctly.

The third method is cost plus, which is fairly straight forward. Here it takes the cost of production incurred over which normal profit margin is apportioned. Most importantly, this mark up must be derived from margins realized by unrelated parties from the sales then affect from transactions of similar nature and product.

### Profit based method

This method assess the profit arises in related party transaction. Similar to transaction based method the profit based method also have three ways to determine the ALP. First, comparable profits method, where, we compare the operating profits revealed by the controlled enterprise with that of uncontrolled companies who are undertaking similar functions and are in the same market faced with a similar risk exposure.

The second method is transaction net margin method, where we use net margin to arrive at arm length price and compare related and unrelated transaction. This method is somewhat similar to comparable profit method. The last method is profit split method, where the profit earned between two or more related entities is split between them by using an equitable formula in proportion to the capital employed and risk profiles. This method become very useful when there is no information about comparable transaction available.

A study of 73 German companies carried out by Wolff (2007) conclude that market price based technique of transfer pricing strongly promotes motivation and effectiveness amongst managers. On the other hand, Urquidi & Ernest (2006) conclude that cost based techniques are better due to ready availability of data of certain comparable transaction. Kuntz & Vera (2005) conclude from their empirical research on analyzing 57000 procedure carried out at a German Hospital, that resources are better utilized by subsidiaries when they are asked to pay for the same with their own financial resources. There is a notable increase in financial awareness specially related to costs incurred.

It is a big challenge for management accountant to develop an appropriate transfer pricing policy for the group as a whole. Anandarajan et al. (2007) point out that a right transfer pricing must have some characteristics like, it should take the best tax advantage of the tax differential between nations, improve the cash flow of the group and fully adhere the arm length guidelines. However, this appropriate transfer pricing policy should be coupled with subsidiary evaluation, incentivize and reward system within an MNC (Urquidi 2008).

### Arms Length Principle: Too narrow?
The ALP is the global benchmark to determine transfer prices for tax purposes however it should be appreciated that there is no standard management approach to determine transfer prices ex-ante in the tax world, which is ex-post (Brem & Tucha, 2006). MNC’s use one of the transfer pricing methods as per taxation rules to deter-

\(^1\)The OECD first proposed the ALP in 1995 through article 9 of OECD model tax convention and the OECD transfer pricing guidelines OECD 2009 and OECD 2010.
mine ex-ante prices thus distort the internal organizations profitability figures, which are used for incentive purposes. There is growing criticism that the modern framework of the tax world in international transfer pricing and consequently allocation of profits is depended upon a narrow ALP concept. Such an interpretation of ALP does not link mainstream transfer pricing with the corresponding method used to determine transfer price. The price does not reflect the market size, internal skills, knowledge and incentives.

ALP is built on the belief that income of a related company should be on the same lines as that of an unrelated company under similar circumstances and facts. It should identify the tax base of a related company such that the transaction under consideration was not organized within the group of the MNC but rather between independent companies. The narrow characteristic of the ALP does not differentiate between the external and internal transactions on the facet of differentials in governance.

If ALP is able to reflect the transaction specific governance structures and contractual differences, getting hold of third party comparable with similar characteristics of governance can be described as a ‘needle in the haystack’. Similar asset categories and unique activities often associated with intangibles, limit the scope of comparability. Even if comparable transactions are found in the modern databases with similar governance structures, specific transaction related attributes are not available.

What is most important is the international context to the issue of comparable data. This would be to the benefit of both the tax authorities and the MNC’s in addressing the concerns of ALP thereby avoiding disputes and help clear the air of uncertainty over this issue which has been explained all throughout this write up. Both the tax authorities and MNC’s commit a lot of resources in accumulating comparable data for the purpose testing the arms length character. These databases are still available to an extent in the US, Canada and other European countries, but many OECD countries and even more importantly the BRIC do not have a very comprehensive database to test the arms length character (Brem & Tucha, 2006). The BRIC are a very big feature in the expansion of world trade hence it is all the more important for them to involve themselves in extensive international cooperation in accumulating comparable data which would tantamount to better regulation more experienced approach and improving tax collections.

Both the OECD and IRS require extensive documentation from the MNC’s in support for the arms length price with which they have transacted at with their subsidiaries. Cools et al (2008) believe that the more comprehensive the documentation, tax authorities would be more close to accepting the procedure applied. The documentation must enable a functional analysis of the transaction so that it can be extrapolated to conclude upon the tasks performed, assets utilized, risk profiles of the various parties, in short be Arm’s Length in the true and genuine sense. MNC’s are also required to support their self assessment with other comparables. MNC’s in the true sense, face a lot of pressure in combating with the documentation requirements of the regulators.

**Corporate perspective of ITP**

As cross border trades increases between firms, the transfer pricing policies of these MNCs are taking the center stage. The exploratory field work conducted by Elliot & Emmanuel (2003) on 12 MNCs, concluded that ITP is centrally determined and not left the discretion of the subsidiary and operations are considered as a whole.

In the global context MNCs pursue a variety of goals like profit maximization sales, marketing strategies, tax optimization, reducing duties and tariff etc. hence there arises a dual role of transfer pricing system with tax optimization in one hand and management control on the other hand. (Cools et al. 2008). This hints in the direction that MNCs maintains two sets of transfer pricing books, one for internal use or for management control and other for tax compliances. However a study conducted by Hyde and Choe (2005) conclude that the cost of maintaining two separate sets of books out-weight the benefits due to which only one set is followed, i.e to serve the tax purpose. This makes life more simpler for MNCs and also avoid any tax dispute with tax authorities (Baldenius et al., 2004). On another study, Bartelsman & Beetsma (2003), empirically show that the MNCs reduce their tax liabilities by two ways. First, design the right financing structure of the subsidiary. In the high taxed countries, the subsidiary uses high debt in the capital structure and benefit of interest tax shield. Second, use of income shifting through the regular and more know channel of intra-firm transaction of goods and services.

MNC’s who are not able to comply with tax oriented regulations are at risk both financially and that of denting their market reputation. Financial risk would constitute imposition of penalties levied on them by the authorities on account of violation of the transfer pricing regulations. Eden et al. (2005), described how the penalties impacted the profitability of MNC’s. According to them, the im-
position of penalties would affect the MNC’s incentive to move profits by manipulation of transfer prices. Their analysis was restricted to Japanese MNC’s with US subsidiaries. Their empirical results concluded that the cash flows in the US declines thereby negatively affecting the stock prices. This refers to the induction of US transfer pricing penalties.

**Double taxation issues**

There is one more problem of MNCs – the double taxation issue. MNCs are definitely be wary about being taxed twice on the same income since their operations stretch numerous jurisdictions. The solution to this problem is Advanced Pricing Agreement (APA). This is a procedure by which the taxpayers and the tax regulators would agree well in advance on the methodology by which the transfer prices would be arrived upon. This eliminates the risk that the authorities would challenge the procedure adopted by the MNCs once the tax is calculated and paid. APA’s could be unilateral i.e. between an MNC and one tax authority or it could be bilateral/multilateral i.e. between multiple tax authorities depending upon the countries transacted in. From the corporate perspective, since APA’s avoid litigations with tax authorities, it saves significant legal costs for the MNCs. An APA would signify that with respect to the type of transaction in question, the proposed transfer pricing method would be the best way of arriving at an arm length price. However, such processes are time consuming and also require user participation fees (Martinson & McKee, 2001). In fact in many nations, this kind of legislative activity is not fully adopted owing to the weakness in transfer pricing regulations and is mainly a feature in the developing nations.

**Regulatory perspective of ITP**

Transfer pricing is high on the agenda on regulators around the world, because it is believed that 2/3rd of all the business transactions across the globe is done within groups of companies (PwC, 2011). The exponential increase in intra firm trade has resulted in tax authorities paying close attention to the transfer pricing transactions of the MNC’s (Garrison et al., 2007). The issues of regulation have been in a constant state of flux due to MNC’s never ending pursuit of transfer pricing manipulation. Regulation has struggled to keep pace with the objectives of MNC’s transfer pricing policies.

This topic is particularly important to developing economies as they have started attracting large sums of investment across the world. The same report, which highlights this fact, also highlights that due to increased volume of international trade with developing countries, their respective revenue authorities only realize about 40% of their tax collection potential. This is due to their unsophisticated administrative procedures; these nations in particular have now started strengthening their regulatory activities and thus now pose a greater level of risk for the MNC’s.

Post 2008, the worldwide crisis, government deficits have scaled their peaks and tax authorities are expected to step up all possible efforts in order to net maximum tax revenues (Wong et al., 2011). They fear that MNC’s engage themselves in manipulation, which will reduce government collections in the form of taxes, duty revenues and exert pressure on their balance of payments thereby distorting the location as an international site for production and employment. Wong et al, (2011) also state that if transfer pricing by MNC’s is left unchecked, then they will have every possible motivation to shift profits between jurisdictions and thereby achieve the objectives of minimizing global tax payments.

The rising interest of tax authorities in the importance of ITP has resulted in growing number of audits. It is believed that resource constraints have prevented them from auditing all the tax returns filed by the MNC’s (Dhawale et al., 2009). In this regard, the tax authorities themselves apply audit prudence and assess the efforts which would be required to allocate to a particular case. Before going ahead with the case, tax authorities would consider complicated transactions which are not easy to benchmark from the available comparable data and would potentially enable them affect large adjustments. If the tax authorities would want to build a case against the returned transaction, the burden of proof lies with them to substantiate the clauses of adjustments.

In the advent of service industry, it is becoming a great challenging task of valuing the transfer price of the services within the business group. The transaction which is being increasingly scrutinized by authorities is the trade of intangibles. The problems of services and intangibles are unique and therefore difficult to regulate from the tax perspective. Tax authorities pay very close attention to such transactions because of the fact that substantial profits or losses, as the case maybe are allocated to the intangibles involved in the global network of transactions. Tax authorities believe that it is in these particular manipulations lay the big dollars of tax revenues, which they can accrue by discovering the malpractice.

The global network of MNC’s has expanded vastly making it difficult to regulate as it must be acknowledged
that the regulatory limits are only restricted to their particular national boundaries however for the MNC’s, their domain stretches across many jurisdictions. This is even more evident for developing nations. They have limited resources in terms of skills and databases with which they can administer and regulate all the tax planning activities of the MNCs.

The BRIC focus

The survey of E&Y (2012)3 reports that expansion in the emerging markets have increase the risk and uncertainty for the MNC’s. It also reveals that 92% of China-based and 62% of Brazil based companies confirms that that they have experienced a rise in the volume or aggressiveness of tax audits in the last three years. Furthermore, 85% companies based at India and 88% of companies based at China have experienced growth in disclosure and transparency requirements in the last two years and 78% of BRIC-headquartered companies reported greater risk or uncertainty around legislation, whereas the global average is 67% only.

BRIC nations have become a significant focal point with regards to the transfer pricing due to increased foreign investment and the existing state of affairs from the regulation point of view: A 2009 survey conducted by Fortune Magazine of the 500 largest corporations revealed that around 10% of them were parented in BRIC nations as against 14% Japanese and 28% American.

If some of the trade statistics and GDP contributions we look, we find that in 2005 the share of Brazil, China and India in the flow of intermediate goods is to the tune of 70% (Maurer & Degain, 2010). The BRIC nations together contribute 17% to the world GDP as compared to 26% of the European Union in 2010. All the four nations taken together are within the top 10 trading partners with the European Union in 2010 and accounts for 19% of the world trade.

Conclusion

It is evidenced after discussing many aspects that intra-firm cross-border trade in MNC’s has exponentially increased in volume and complexity. Contractual natures have evolved with time. Exchange of intangibles is now a sure thing along with trade of goods is now a regular feature that many transactions between the firms are not priced as their exchange is conducted with the MNC’s domain. The objectives of the corporate and the tax authorities differ in many aspects and thus making transfer pricing very important in the global context. Some MNC’s would solely be concerned with their overall global profitability, on the flip side some might be committed towards actual determination of profits on each sub-units and measure the performance within the brass of managers.

Transfer pricing is not a pure science. The widest gap which is present in this section of the background to the transfer pricing is between the expectation which arises from adopting a regulation and implementing it to a sustainable capacity and live up to the standard of international law capable to administering complex intra-firm transaction. There is no shortage of issues in such liberalized time which require a global solution with specific focus laid on business regulation. However, it is of utmost importance for negotiating nations to strike a correct balance between economic reality and political acceptability.

The nature of trade has undergone a makeover, from parent-run distant subsidiaries, to a more globalized organization with many cultures and value chains operating at the same time and place. Since this shift they have realized that transfer pricing cannot be written in stone.

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and be permanent for the rest of their operating life, it has to be continually regulated and tailored as per the needs of the situation and vicinity of their geographic location. Life has become very complex for MNCs in context of justifying prices to be at arm length.

Reference


pradip2002@gmail.com

NOTIFICATION
The Examination Committee of the Council of the Institute decided to open new Examination Center from December 2014 Examination at:
(a) Erode (Centre code-239)
(b) Hazaribag (Centre Code-328)

A. Das
Director (Examination)
Corporates! Find your future managers through the Campus Placement Programme of the Institute

**SCHEDULE OF THE CAMPUS PLACEMENT PROGRAMME**

<table>
<thead>
<tr>
<th>S No.</th>
<th>Location</th>
<th>Date for written test/ PPT by companies (if any)</th>
<th>Date for Interview/ Process of Selection</th>
</tr>
</thead>
</table>

The campus placement of the Institute has attracted many recruiters. Some of the organisations who had visited our campus in the past were BHEL, ONGC, Coal India, ITC, Allahabad Bank, IDBI, Lanco, MMTC, STC, Power Grid Corporation, Ramco Systems, Haldia Petro Chemicals, HUDCO, BSNL, ICICI Bank, Ashok Leyland, SEBI, Nestle, Wipro, TCS, Tata Motors, Bosch, iGate, KPMG, Goldman Sachs, etc.

**For details, please contact:**
Director (Training and Placement)
4th Floor, CMA Bhawan, The Institute of Cost Accountants of India
3, Institutional Area, Lodhi Road, New Delhi – 110003, Email: placement@icmai.in, Website: www.icmai.in
Ref. No.: DOS/8/07/2014-15

July 28, 2014

CIRCULAR

Sub: Eligibility of Students for appearing at CMA Foundation Course Examinations in September 2014, December 2014 & March, 2015

It is clarified for general information that the students who got admitted/would be admitted to the CMA Foundation Course of the Institute as per following schedule, shall be eligible to appear at the CMA Foundation Course Examination of the Institute, as follows:

<table>
<thead>
<tr>
<th>Term of Examination</th>
<th>Date of Examination</th>
<th>Cutoff date as per Regulation proposed by Directorate of Studies for implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(already notified by Exam.Deptt.)</td>
<td></td>
</tr>
<tr>
<td>December 2014</td>
<td>21/12/2014*</td>
<td>21/7/2014</td>
</tr>
<tr>
<td>March 2015</td>
<td>21/3/2015*</td>
<td>21/10/2014</td>
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</tbody>
</table>

*Tentative, final date yet to be notified

All concerned are requested to please take note of the same and guide the students accordingly. However, these dates for December 2014 & March 2015 stands confirmed until change in the date of Foundation Course Examination.

This circular is in partial modification of the earlier Circular No.: DOS/8/2013-14 dated 13/12/2013 on revised cut off dates for admission to the CMA Foundation Course Examination.

This is further informed that June 2015 is the last term for Examination under Syllabus-2008.

(Chiranjib Das)
Joint Director, Head - Academics & Tax Research Department & In-Charge of Directorate of Studies
## CMA DOSSIER

A directory of some research papers on ‘Forensic Accounting’ that appeared in various journals, periodicals, and magazines across the world is presented below for the reference of readers. The articles are available at the link provided next to them.

<table>
<thead>
<tr>
<th>Name of the topic</th>
<th>Author</th>
<th>Reference with date</th>
<th>Link</th>
</tr>
</thead>
<tbody>
<tr>
<td>Roles of Financial Experts and Information Technology In Financial Fraud Deterrence</td>
<td>Ms. Ruchi Dube</td>
<td>9-May-2014</td>
<td><a href="https://gupea.ub.gu.se/bitstream/2077/35770/1/gupea_2077_35770_1.pdf">https://gupea.ub.gu.se/bitstream/2077/35770/1/gupea_2077_35770_1.pdf</a></td>
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<tr>
<td>Name of the topic</td>
<td>Author</td>
<td>Reference with date</td>
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</table>
**EXAMINATION TIME TABLE & PROGRAMME – SEPTEMBER 2014**

**FOUNDATION COURSE EXAMINATION**
(Multiple Choice Questions – Online Mode)

<table>
<thead>
<tr>
<th>Day &amp; Date</th>
<th>Foundation Course Examination</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Syllabus-2008</td>
</tr>
</tbody>
</table>
| Sunday, 21st September, 2014. | Paper – 1 & 2 (100 Marks)  
Time: 10 A.M. to 12.00 Noon  
Paper 1 : Organisation and Management Fundamentals (50 Marks)  
Paper 2 : Accounting (50 Marks)  
Paper – 3 & 4 (100 Marks)  
Time: 2 P.M. to 4.00 P.M.  
Paper 3 : Economics and Business Fundamentals (50 Marks)  
Paper 4 : Business Mathematics and Statistics Fundamentals (50 Marks) |
|                     | Syllabus-2012                                                                                   |
| Sunday, 21st September, 2014. | Paper – 1 & 2 (100 Marks)  
Time: 10 A.M. to 12.00 Noon  
Paper 1 : Fundamentals of Economics and Management (50 Marks)  
Paper 2 : Fundamentals of Accounting (50 Marks)  
Paper – 3 & 4 (100 Marks)  
Time: 2 P.M. to 4.00 P.M.  
Paper 3 : Fundamentals of Laws & Ethics (50 Marks)  
Paper 4 : Fundamentals of Business Mathematics and Statistics (50 Marks) |

**Examination Fees**

<table>
<thead>
<tr>
<th>Foundation Course Examination</th>
<th>Inland Centres</th>
<th>Overseas Centres</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>₹ 1000/-</td>
<td>US $ 60</td>
</tr>
</tbody>
</table>

1. The Foundation Examination in both syllabus (2008 & 2012) will be conducted in M. C. Q. Mode through Online only.
2. Total Questions : 100 (Multiple Choice Questions), Maximum Marks : 100 (Each Question will carry 1 Mark). There will be no negative marking for wrong answers.
3. (a) Students can login to the website [www.icmai.in](http://www.icmai.in) and apply online through payment gateway by using Credit/Debit card.
   (b) Application Forms for Foundation Examination is available from Institute’s Headquarters at 12, Suider 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.
   (c) Students can also download the Examination Form free of cost from ICAI Website at [www.icmai.in](http://www.icmai.in).
   (d) Students can also pay their requisite fee through payfee module of IDBI.
4. Last date for receipt of Examination Application Forms without late fees is 6th August, 2014 and with late fees of ₹300/- is 16th August, 2014. In case of online Examination Application with payment gateway by using Credit/Debit Card, the late fees of ₹300/- will be waived if applied within 16th August, 2014.
5. 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.
6. Students may submit their Examination Application Forms along with the fees at ICAI, CMA Bhawan, 12 Suider Street, Kolkata – 700016 or Regional Offices or Chapter Offices. Any query in this regard may be addressed to Examination Directorate at 12, Suider Street, Kolkata – 700016.
7. **Examination Centres**: Agartala, Ahmedabad, Akurdi, Allahabad, Asansol, Aurangabad, Bangalore, Baroda, Berhampur(Ganjam), Bhilai, Bhiwara, Bhopal, Bhubaneswar, Bilaspur, Bokaro, Calicut, Chandigarh, Chennai, Coimbatore, Dehradun, Delhi, Dhanbad, Durgapur, Ernakulam, Faridabad, Gandhidham, Ghaizabad, Guwahati, Hardwar, Howrah, Hyderabad, Indore, Jaipur, Jabalpur, Jalandhar, Jammu, Jamshedpur, Jodhpur, Kalyan, Kannur, Kanpur, Kolhapur, Kolkata, Kota, Kottayam, Lucknow, Ludhiana, Madurai, Mangalore, Mumbai, Mysore, Nagpur, Nasik, Nellore, Noida, Panaji (Goa), Patiala, Patna, Pondicherry, Port Blair, Pune, Raajahmundry, Ranchi, Rourkela, Salem, Sambalpur, Shillong, Siliguri, Solapur, Srinagar, Surat, Thrissur, Tiruchirapalli, Tirunelveli, Trivandrum, Udaipur, Valsad, Vashi, Vellore, Vijayawada, Vindhyanagar, Waltair and Overseas Centres at Bahrain, Dubai and Muscat. (If no examination centre is available at a particular location, examinees will be accommodated at the nearest Centre available)
8. A candidate who is completing all conditions will only be allowed to appear for examination.

A. Das  
Director (Examination)
ICWAI Management Accounting Research Foundation

Promoted by
The Institute of Cost Accountants of India

Non-Residential Management Development Programme on

Recent Trends in Financial Management including Companies Act, 2013

12-14 November, 2014
New Delhi
Recent Trends in Financial Management including Companies Act, 2013

**COURSE COVERAGE**

- Companies Act, 2013
- Working Capital Management
- Corporate Governance
- Budget 2014 welcoming IFRS- Key Challenges for Corporates
- Risk Management- Key Focus areas in the Companies Act - Practical Implementation Approach for Risk Register, Risk Policy, Risk Quantification
- Corporate Valuation

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Ph: +9111- 23710101

**DATES**

12 - 14 November, 2014
10:00 - 17:00 Hrs
PARTICIPATION FEE

The programme is Non Residential. Fee is ₹ 25,000/- plus 12.36% service tax per participant. The Fee includes course fee, course material, course kit, lunch and tea/coffee during the programme.

The Cheque/DD to be sent along with nominations in favour of ‘ICWAI Management Accounting Research Foundation’ payable at New Delhi.

DETAILS FOR ECS PAYMENT:

<table>
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<th>Account Name</th>
<th>ICWAI Management Accounting Research Foundation</th>
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<tr>
<td>Bank Name and Branch</td>
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<tr>
<td>Current A/C No.</td>
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<td>IFS Code</td>
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<td>PAN</td>
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<tr>
<td>Service Tax No.</td>
<td>AACC11864PSD002</td>
</tr>
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</table>

FOR KIND INFORMATION

For outstation programmes the participants are requested to get the confirmation from the ICWAI MARF before proceeding to the venue. The ICWAI MARF will not be held responsible if any participant reaches the venue for postponed/cancelled programme without getting the confirmation from the ICWAI MARF. The cancellation/postponement of the programme, if any, be intimated to only those organizations whose nominations have been received by the ICWAI MARF on time.

REGISTRATION

For Further Details and Registration Please Contact:

CMA Sanjeev Goel
Joint Director
(M) 9810965145
cep.sanjeev@icmai.in
mdp@icmai.in

ICWAI Management Accounting Research Foundation
CMA Bhawan, 3 Institutional Area, Lodhi Road, New Delhi - 110 003.
Phone: (D) 011-24666131, 24666130, 24666142; Tele-fax: 011-24666131
Website: www.icwaimarf.org
THE TRAINING PROGRAMMES

The ICWAI MARF efforts are directed towards quality training and introducing new programmes to meet emerging challenges of the corporate world.

Broadly the programmes are classified as:

- Training programmes for practicing managers of both public and private sectors, Banks, Financial Institutions, Multinationals Insurance Companies and Government Departments.

ICWAI Management Accounting Research Foundation
Promoted by The Institute of Cost Accountants of India

Certificate Course on International Financial Reporting Standards (IFRS) & Converged Indian Accounting Standards (Ind-AS) at New Delhi

- 13-17 October, 2014
- 15-19 December, 2014
- 09-13 February, 2015
- 16-20 March, 2015
Certificate Course on International Financial Reporting Standards (IFRS) & Converged Indian Accounting Standards (Ind-AS)

**COURSE OBJECTIVE:**
Indian companies will have to adopt the new Indian Accounting Standards (Ind AS) voluntarily from fiscal year 2015-16 and on a mandatory basis from 2016-17, the Finance Minister Shri Arun Jaitley said on 10th July-2014. “There is an urgent need to converge the current Indian Accounting Standards with the International Financial Reporting Standards (IFRS),” the Finance Minister said in his Union Budget speech. ICWAI Management Accounting Research Foundation promoted by The Institute of Cost Accountants of India Certificate Course offers an excellent opportunity to learn IFRS and converged Indian Accounting Standards through in-depth personal interaction sessions with expert faculty members.

The course aims to help the participants to understand IFRS convergence and thereby enabling them to participate in IFRS convergence process.

**DURATION:**
Three months including five days classroom session with case studies followed by on-line examination.

**COURSE SCHEDULE:**

<table>
<thead>
<tr>
<th>Day</th>
<th>Time Session</th>
<th>Course Coverage</th>
<th>Contents and Deliverables</th>
</tr>
</thead>
<tbody>
<tr>
<td>Day-1</td>
<td>09:30 Hrs - 17:30 Hrs</td>
<td>Introduction - IFRS Basics, Key aspects, worldwide scenario, IFRS,IAS, SIC, IFRIC etc.- understanding</td>
<td>Covers the basics of IFRS, what are the key terms, how the concepts are derived and how they are to be impacted</td>
</tr>
<tr>
<td></td>
<td>09:30 Hrs - 11:30 Hrs</td>
<td>IAS-1 Presentation of Financial Statements</td>
<td>How to prepare Financial statements, Concepts of SOCE and OCI, how to treat the discontinued operations, how and where to report the changes in accounting policies, accounting estimates and errors</td>
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<tr>
<td></td>
<td>11:45 Hrs - 13:00 Hrs</td>
<td>IFRS 5 - assets held for sale and discontinued operations</td>
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<tr>
<td></td>
<td>15:45 Hrs - 17:30 Hrs</td>
<td>IAS 8 - accounting policies, changes in accounting estimates and errors</td>
<td></td>
</tr>
<tr>
<td>Day-2</td>
<td>14:00 Hrs - 15:30 Hrs</td>
<td>IAS 18 - revenue</td>
<td>Covers- conditions for revenue to be booked, how to value the Inventories, concept of valuation of inventories for service provider, constructions contracts and their revenue booking</td>
</tr>
<tr>
<td></td>
<td>15:45 Hrs - 17:30 Hrs</td>
<td>IAS 2 - inventories, IAS 11 - construction contracts, IAS 16 - tangible assets, IAS 40 - investment property</td>
<td></td>
</tr>
<tr>
<td>Day-3</td>
<td>09:30 Hrs - 11:30 Hrs</td>
<td>IAS 17 - leases, IAS 20 - Accounting for Government Grants and Disclosure of Government Assistance, IAS 23 - Borrowing Costs</td>
<td>Concept of Leases- Operating and Finance lease, future of one common accounting concept, Government grants and how to disclose the grants in financials and on Interest capitalization or charge off-criteria to decide</td>
</tr>
<tr>
<td></td>
<td>11:45 Hrs - 13:00 Hrs</td>
<td>IAS 38 - intangible assets, IAS 36 - impairment of assets, IAS 41 - agriculture, IFRS 6 - Exploration for and Evaluation of Mineral Resources</td>
<td>Concept of Intangibles and the concept of Impairment- various methods of Impairment including DCF method to test impairment, period of impairment testing required, concept of agriculture and evaluation of mineral resources</td>
</tr>
<tr>
<td>Day</td>
<td>Time Session</td>
<td>Course Coverage</td>
<td>Contents and Deliverables</td>
</tr>
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</tr>
<tr>
<td></td>
<td>14:00 Hrs - 15:30 Hrs</td>
<td>IAS 32 - Financial instruments: presentation</td>
<td>IFRS-10 is supposed to replace IAS-39 similarly IFRS-7 is supposed to replace IAS-32. IFRS-9 effective date is Jan-15. New concepts of categorization of Financial assets and Liabilities</td>
</tr>
<tr>
<td></td>
<td></td>
<td>IAS 39 - Financial instruments: measurement</td>
<td></td>
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<td>IFRS 7 - Financial instruments: disclosures</td>
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<td>IFRS 9 - Financial Instruments (new standard)</td>
<td></td>
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<tr>
<td></td>
<td>15:45 Hrs - 17:30 Hrs</td>
<td>AS 37 - provisions</td>
<td>How to treat provisions and also events occurring after the Balance sheet date in the financial's</td>
</tr>
<tr>
<td></td>
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<td>IAS 10 - events after balance sheet</td>
<td></td>
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<tr>
<td>Day-4</td>
<td>09:30 Hrs - 11:30 Hrs</td>
<td>IFRS 4 - insurance contracts</td>
<td>Concept of Liability adequacy test and the treatment on any deficiency</td>
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<td>IAS 19 - pensions</td>
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<td></td>
<td>11:45 Hrs - 13:00 Hrs</td>
<td>IFRS 2 - share-based payments</td>
<td>how to treat share based payments and also the concept of asset approach while doing the defer tax accounting</td>
</tr>
<tr>
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<td>IAS 12 - deferred tax</td>
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<tr>
<td></td>
<td>14:00 Hrs - 15:30 Hrs</td>
<td>IFRS 3 - business combinations</td>
<td>Amalgamations and absorptions, preparation of consolidated financials -equity accounting. Minority or NCI, how to account for transaction and translations and also impact in hyperinflationary economies</td>
</tr>
<tr>
<td></td>
<td></td>
<td>IAS 27 - Consolidated and Separate Financial Statements</td>
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<td></td>
<td>IAS 21 - The Effects of Changes in Foreign Exchange Rates</td>
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<td></td>
<td></td>
<td>IAS 29 - Financial Reporting in Hyperinflationary Economies</td>
<td></td>
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<td></td>
<td>15:45 Hrs - 17:30 Hrs</td>
<td>IAS 28 - Investments in Associates</td>
<td>How to account for Associates and Joint Ventures</td>
</tr>
<tr>
<td></td>
<td></td>
<td>IAS 31 - Interests in Joint Ventures</td>
<td></td>
</tr>
<tr>
<td>Day-5</td>
<td>09:30 Hrs - 11:30 Hrs</td>
<td>IAS 7 - cash flow statements</td>
<td>Cash Flow- concepts of O.I and F activities, segments -what are they and how they needs to be reported and also concept of related parties</td>
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<tr>
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<td></td>
<td>IAS 14 - segment reporting</td>
<td></td>
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<td>IAS 24 - related parties</td>
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<tr>
<td></td>
<td>11:45 Hrs - 13:00 Hrs</td>
<td>IAS 33 - earnings per share</td>
<td>To determine the EPS and Interim reporting requirements</td>
</tr>
<tr>
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<td></td>
<td>IAS 34 - interim reporting</td>
<td></td>
</tr>
<tr>
<td></td>
<td>14:00 Hrs - 15:30 Hrs</td>
<td>IFRS-1 - First time adoption of IFRS</td>
<td>Optional and Mandatory exemptions while first time adoption of IFRS</td>
</tr>
<tr>
<td></td>
<td>15:45 Hrs - 17:30 Hrs</td>
<td>Case Studies</td>
<td>Coverage of all topics</td>
</tr>
</tbody>
</table>

**Tea Break**: 11:30 Hrs – 11:45 Hrs and 15:30 Hrs – 15:45 Hrs  
**Lunch Break**: 13:00 Hrs – 14:00 Hrs

**FOR WHOM:**
Cost Accountants, Chartered Accountants and Company Secretaries, Senior and Middle level executives of various Public and Private Sector organizations, Banks, financial Institutions, Insurance Companies, Government departments, Autonomous bodies, Statutory Bodies, Multinationals, etc.; Practicing Cost Accountants, Company Secretaries and Chartered Accountants, Faculty of Universities, Management Institutions and Autonomous professional Institutions, Students pursuing the professional courses and any other person involved in the IFRS process.
METHODOLOGY:
- Class room sessions of 40 Hrs. (Monday-Friday from 09.30 Hrs to 17.30 Hrs)
- Course Material
- Online Examination

DURATION:
Three months including five days classroom session with case studies followed by on-line examination.

VENUE:
CMA Bhawan, 3 Institutional Area,
Lodhi Road, New Delhi - 110 003

COURSE FEE:
The course is Non-Residential. Fee is ₹ 25000/- plus 12.36% service tax per participant. The Fee includes Course Fee, course kit including course material, lunch, tea/coffee during classrooms sessions and online Examination charges.
The Cheque/DD to be sent along with nominations in favour of ‘ICWAI Management Accounting Research Foundation’ payable at New Delhi.

DETAILS FOR ECS PAYMENT:

<table>
<thead>
<tr>
<th>Account Name</th>
<th>ICWAI Management Accounting Research Foundation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank Name and Branch</td>
<td>Punjab National Bank, Lodhi Road, New Delhi - 110003</td>
</tr>
<tr>
<td>Current A/C No.</td>
<td>0126002100301640</td>
</tr>
<tr>
<td>IFS Code</td>
<td>PUNB0012800</td>
</tr>
<tr>
<td>PAN</td>
<td>AACCI1864P</td>
</tr>
<tr>
<td>Service Tax No.</td>
<td>AACCI1864PSD002</td>
</tr>
</tbody>
</table>

FOR KIND INFORMATION
For outstation programmes the participants are requested to get the confirmation from the ICWAI MARF before proceeding to the venue. The ICWAI MARF will not be held responsible if any participant reaches the venue for postponed/cancelled programme without getting the confirmation from the ICWAI MARF. The cancellation/postponement of the programme, if any, be intimated to only those organizations whose nominations have been received by the ICWAI MARF on time.

REGISTRATION
For Further Details and Registration Please Contact:

CMA Sanjeev Goel
Joint Director
(M) 9810965145
cap.sanjeev@icmai.in
mdp@icmai.in

ICWAI Management Accounting Research Foundation
CMA Bhawan, 3 Institutional Area, Lodhi Road, New Delhi - 110 003.
Phone: (D) 011-24666131, 24666130, 24666142; Tele-fax: 011-24666131
Website: www.icwaimarf.org
THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
(Statutory Body under an Act of Parliament)
IMPORTANT ANNOUNCEMENT

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

Dated: Kolkata, 27th May, 2014

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

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

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

<table>
<thead>
<tr>
<th>Syllabus 2012</th>
<th>Course</th>
<th>Paper/Subject</th>
<th>Chapter/s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intermediate</td>
<td>Paper 5 - Financial Accounting (FAC)</td>
<td></td>
<td>5, 8</td>
</tr>
<tr>
<td></td>
<td>Paper 6 - Laws, Ethics &amp; Governance (LEG)</td>
<td></td>
<td>5, 7</td>
</tr>
<tr>
<td></td>
<td>Paper 12 - Company Accounts &amp; Audit (CAA)</td>
<td></td>
<td>3, 4, 7, 8, 10, 15, 16, 17, 18</td>
</tr>
<tr>
<td>Final</td>
<td>Paper 13 - Corporate Laws &amp; Compliance (CLC)</td>
<td></td>
<td>1, 2, 9</td>
</tr>
<tr>
<td></td>
<td>Paper 18 - Corporate Financial Reporting (CFR)</td>
<td></td>
<td>1, 2, 3</td>
</tr>
<tr>
<td></td>
<td>Paper 19 - Cost Audit &amp; Management Audit (CMAD)</td>
<td></td>
<td>6, 10</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Syllabus 2008</th>
<th>Course</th>
<th>Paper/Subject</th>
<th>Chapter/s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intermediate</td>
<td>Paper 5 - Financial Accounting (FAC)</td>
<td></td>
<td>7, 8, 10</td>
</tr>
<tr>
<td></td>
<td>Paper 6 - Commercial &amp; Industrial Law &amp; Auditing (CIA)</td>
<td></td>
<td>6, 7</td>
</tr>
<tr>
<td>Final</td>
<td>Paper 16 - Advanced Financial Accounting &amp; Reporting (AFAR)</td>
<td></td>
<td>1, 2, 3</td>
</tr>
<tr>
<td></td>
<td>Paper 17 - Cost Audit &amp; Operational Audit (COA)</td>
<td></td>
<td>5</td>
</tr>
</tbody>
</table>

Note:

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

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

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

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

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

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

This issues with an approval of the competent authority.

CMA Chiranjib Das
Joint Director, Head - Academics Department (Board of Studies)
Secretary to the Board of Studies Committee
Guidelines for submitting articles for ‘The Management Accountant’

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

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

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

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

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

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

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

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

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

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

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

Declaration

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

Date: __________________________
Place: __________________________

(Signature)
Name: __________________________
Designation: _____________________
Organization: ____________________
E-mail ID: _______________________
Contact No: _____________________

All authors are requested to keep to the word limit of 1500–2000 words for articles. Those who have already sent their articles are also requested to revise their articles and send them to us within the word limit.
INSTITUTE NEWS

Eastern India Regional Council

South Odisha Chapter of Cost Accountants

The Chapter organized an evening talk programme with participation of students and members on July 19, 2014 on the theme “Union Budget-2014”. CA Amar Kanta Padhy, FCA, being the chief guest discussed on Union Budget, 2014 and also the relevant changes sectionwise in Income Tax, Service Tax, and other Taxes. CMA N.C Kar, chairman of the chapter, pointed out the disparities of the Budget, 2014 and expressed his dissatisfaction for FDI in defence sector. He too discussed on the new changes in the Budget. CMA K Srinivas Rao, treasurer of the chapter elaborated on the same and CMA A.K. Patro, vice – chairman of the chapter concluded with a vote of thanks.

Northern India Regional Council

Chandigarh-Panchkula Chapter of Cost Accountants

The Chapter organized the first meeting of the National Advisory Committee in coordination with NIRC, New Delhi on August 9, 2014. CMA Balwinder Singh, former council member conducted the technical session and detailed presentation of cost rules in various industries. CMA Vijender Sharma, chairman, NIRC presided over the function and demanded the new Cost Rules 2014 to put into abeyance till the committee submits its report along with the continuation of the existing rules. CMA Mukesh Kumar Gupta, chairman of the chapter and Member National Advisory Committee of the Institute compiled and consolidated all the suggestions and feedback received from members. CMA K K Sinha, secretary and CMA H K Sharma vice chairman proposed the vote of thanks.
Southern India Regional Council

The Region celebrated the 68th Independence Day at CMA Bhawan. CMA H Padmanabhan, Chairman, SIRC, CMA Ch Venkateswarlu, Vice Chairman, SIRC, CS Baiju Ramachandran, Chairman, SIRC, ICSI, students, staff members were present on the occasion and hoisted the flag. CMA M J Gopalakrishnan, Past Chairman, SIRC, CMA M Gopalakrishnan, Former President, ICAI, CMA S Ramanathan, Past Chairman, SIRC addressed the huge gathering. The Independence Day Celebration was followed by Motivating and Personality Development Program for the students conducted by an expert from the field and it was held as a part of Student Development Program.

Bangalore Chapter of Cost Accountants

The Chapter organized a Professional Development meet on July 3, 2014 on the theme “Uploading Data of Sales & Purchases To The Website of Commercial Tax Department and Latest VAT Related Issues” organized by Dr. B.V. Murali Krishna, Joint Commissioner, Commercial Taxes (e-Audit Unit), Commercial Tax Department, Government of Karnataka. On July 11, 2014, a discussion was made on “Union Budget 2014 – An Analysis”. Shri M.V. Sridhar, Management Consultant, on Indirect Taxation and Shri K. Gururaj Acharya, Director, State Bank of Mysore, on Direct Taxation were the speakers on the discussion. On July 13, 2014 there was a Practitioner’s Meet on Companies (Cost Records and Audit) Rules, 2014 led by CMA M. Gopalakrishnan, past president of the Institute. Various Investor Awareness Programmes had been conducted by the chapter in the months of July and August 2014 in association with the Registrar of Companies, Karnataka. On July 26, 2014, CMA G.N. Venkataraman, past president of the institute, deliberated his speech on “Investment Formalities and Redressal Mechanism”. CMA Dr. B. Venkatachalam, Managing Director, M/s Hexagon Capital Markets Ltd., briefly discussed on rights and liabilities of The Investor on August 2, 2014. On August 13, 2014, Prof. R. Madhwaraj, Management Consultant, discussed on Corporate and Enterprise Governance. On August 1, 2014, a discussion on Audit of Cooperative Societies under Karnataka Co-Operative Societies Act, 1959 was held. CMA Suresh R., Gunjalli, Chairman-Practitioners’ Forum, led the discussion. On August 9, 2014, a workshop on Karnataka Value Added Tax (K-VAT) was organized. Shri T. Srikanta Rao, Partner, RCE & Co., Shri K.S. Kamalakara, Cost Accountant, and Shri B.V. Ravi, Joint Commissioner, Commercial Tax Department, spoke on Recent Development in K-VAT, on VAT audit procedure, and on Input Tax Credit Policy respectively. On August 15, 2014 the Chapter celebrated the 68th Independence Day.

Trivandrum Chapter of Cost Accountants

The Chapter conducted a Professional Development Programme on July 27, 2014 on the theme “Risk Management in Banking Industry”. CMA Isac Kutty M.K, Professional Development Committee Chairman welcomed the gathering and Guest Speaker, CMA Vinod Chandrasekharan, ACMA, CAIIB, FCFA, Asst. General Manager, National Bank for Agriculture and Rural Development elaborately discussed various risks associated with organizations and steps involved in eliminating them. CMA Veerapudran S., secretary of the chapter concluded the meeting with a proposed vote of thanks. The Chapter celebrated the 68th Independence Day on August 15, 2014. CMA Joseph Louis, chairman of the Chapter hoisted the National Flag and CMA S Hariharasubramanian, vice chairman of the chapter, CMA S Veerapudran, secretary, Managing Committee members as well as students and staffs participated in the occasion.

www.icmai.in
Western India Regional Council

Pimpri-Chinchwad-Akurdi Chapter of Cost Accountants

The Chapter organized seminar on “Independent Directors – Roles and Responsibilities under Companies Act 2013” on June 21, 2014. The Guest Speaker, CS Luv Tanwani, Senior Executive - Legal, Thermax Ltd covered various aspects viz. Role and Responsibilities of Independent Directors, Clause 49 of listing Agreement, Appointment, selection, remuneration etc. On July 19, 2014 the Chapter organized seminar on “Budget Changes and Professional Development”. Guest Speakers, CMA Ashok Naval and CMA Manoj Malpani in the technical session discussed on various changes in Indirect Taxation and Direct Taxation respectively specified in the Budget.

KIND ATTENTION MEMBERS!
Annual membership fee for FY 2014-15 became due for payment w.e.f. 1st April 2014, the last date of which is 30th September 2014.
Members are requested to kindly make payment of their prescribed membership fee without waiting for the last date of payment.

KIND ATTENTION!
Members are hereby requested to intimate the Transaction ID, Date of payment, amount deposited and membership number to membership@icmai.in and finance.arijit@icmai.in for membership fee payments made through Bank by NEFT.
In case of payments made directly by organizations to the Institute’s bankers on behalf of the members, the details of the same may also be intimated to the above mentioned mail IDs as soon as the payment is made by the organization concerned.

NON-RECEIPT OF THE MANAGEMENT ACCOUNTANT JOURNAL
This is for the information of members who fail to receive the management accountant journal despatched to them either due to un-intimated change of address or postal problems. Such addresses of the members whose journals have been returned undelivered are regularly hosted on the website of the institute (www.icmai.in) under the ‘journal’ section.
Please inform the membership department immediately any address update to ensure regular and timely delivery of journals to you. Members can also update their addresses online in the ‘members’ section. The new address gets automatically updated in the centralized data base of the institute, from where the journal mailing list is prepared. Any queries or complaints in this regard can also be sent by email at journal@icmai.in.

DIRECTORATE OF ADVANCED STUDIES
Notification
The Directorate of Advanced Studies has extended the date for enrolment to the Diploma in Information System Audit and Control 2nd batch to 30th September, 2014. For further details please see the website www.icmi.in or contact the Directorate at the following address.

CMA Dr P S S Murthy, Director (Advanced Studies)
The Institute of Cost Accountants of India, Hyderabad Centre of Excellence
Plot No 35, Financial Distict, Nanakramguda Village, Gachibowli, Hyderabad-32
040-23002555, Mobile: 9849422844
E-Mail:advstudies.murthy@icmai.in
THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

(Statutory body under an Act of Parliament)

MANAGEMENT ACCOUNTANCY

EXAMINATION TIME TABLE & PROGRAMME – DECEMBER 2014

<table>
<thead>
<tr>
<th>Wednesday 10th December, 2014 09.30 A.M to 12.30 P.M</th>
<th>Wednesday 10th December, 2014 02.00 P.M to 05.00 P.M</th>
<th>Thursday 11th December, 2014 09.30 A.M to 12.30 P.M</th>
<th>Thursday 11th December, 2014 02.00 P.M to 05.00 P.M</th>
<th>Friday 12th December, 2014 09.30 A.M to 12.30 P.M</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management Accountancy</td>
<td>Advanced Management Techniques</td>
<td>Industrial Relations &amp; Personnel Management</td>
<td>Marketing Organisation &amp; Methods</td>
<td>Economic Planning &amp; Development</td>
</tr>
</tbody>
</table>

EXAMINATION FEES

Per Group Rs 2500/-

1. (a) Application Form for Management Accountancy Examination is available from Directorate of Advanced Studies, The Institute of Cost Accountants of India, Hyderabad Centre of Excellence, Plot No. 35, Financial District, Nanakramguda Village, Serilingampally Mandal, Gachibowli, Ranga Reddy District, Hyderabad on payment of Rs 50/- per form.

(b) Students can also download the Examination Form from ICAI Website at www.icmai.in.

2. Last date for receipt of Examination Application Form without late fees is 10th October, 2014 and with late fees of Rs 300/- is 20th October, 2014.

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 Form along with the fees at Directorate of Advanced Studies, The Institute of Cost Accountants of India, Hyderabad Centre of Excellence, Plot No. 35, Financial District, Nanakramguda Village, Serilingampally Mandal, Gachibowli, Ranga Reddy District, Hyderabad. Any query in this regard may be addressed to Directorate of Advanced Studies, Plot No. 35, Financial District, Nanakramguda Village, Serilingampally Mandal, Gachibowli, Ranga Reddy District, Hyderabad.

5. Examination Centres: Adipur-Kachchh(Gujarat), Agartala, Ahmedabad, Akurdi, Allahabad, Asansol, Aurangabad, Bangalore, Baroda, Berhampur(Ganjamp), Bhilai, Bhilwara, Bhopal, Bhubaneswar, Bilaspur, Bokaro, Calicut, Chandigarh, Chennai, Coimbatore, Cuttack, Dehradun, Delhi, Dhanbad, Durgapur, Ernakulam, Erode, Faridabad, Ghaziabad, Guwahati, Hardwar, Hazaribag, Howrah, Hyderabad, Indore, Jaipur, Jabalpur, 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, Sambalpur, Shillong, Siliguri, Solapur, Srinagar, Surat, Thrissur, Tiruchirapalli, Tirunelveli, Trivandrum, Udaipur, Vapi, Vashi, Vellore, Vijayawada, Vindhyanagar, Waltair, and Overseas Centres at Bahrain, Dubai and Muscat.

6. A candidate who is completing all conditions will only be allowed to appear for examination.
Ref. No: BOS/01-04/14-15

Dated: Kolkata, 1st April, 2014

Clarification on applicability of Finance Act, 2013 and CAR 2011, CARR 2011 and CASs for CMA Examinations

It is clarified for general information of all concerned that:

(A) Finance Act, 2013 shall be made applicable involving Assessment Year 2014-15 for the following papers in June 2014 and December 2014 terms of Examinations of the Institute:

<table>
<thead>
<tr>
<th>Syllabus 2008</th>
<th>Syllabus 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paper 7 - Applied Direct Taxation</td>
<td>Paper 7 - Direct Taxation</td>
</tr>
<tr>
<td>Paper 10 - Applied Indirect Taxation</td>
<td>Paper 11 - Indirect Taxation</td>
</tr>
<tr>
<td>Paper 14 - Indirect and Direct Tax Management</td>
<td>Paper 16 - Tax Management &amp; Practice</td>
</tr>
</tbody>
</table>

This is also clarified in the Examination Notification issued by the Directorate of Examination of the Institute (http://icmai.in/examination/notification)

(B) Cost Accounting Record Rules 2011, Cost Audit Report Rules 2011 and Cost Accounting Standards - 1-17 will also be applicable for the following papers for June 2014 term of Examination:

<table>
<thead>
<tr>
<th>Syllabus 2008</th>
<th>Syllabus 2012</th>
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<td>Paper 17 - Cost Audit and Operational Audit</td>
<td>Paper 19 - Cost and Management Audit</td>
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(C) It is further clarified for general information that the provisions of "The Companies Act, 2013" shall not be applicable for the CMA Intermediate and Final Course Examinations for June, 2014 term of Examination. (Clarified vide BOS/01-08/13-14, on 26th August, 2013 and reiterated vide BOS/01-12/13-14 on 18th December, 2013). Applicability of provisions of The Companies Act, 2013 for Examinations of the Institute would be notified in due course.

All concerned are hereby requested to note this clarification and facilitate to make a proper and wide publicity to meet the concern of stakeholders on the stated subjects.

CMA Chiranjb Das
Joint Director, Head - Academics Department (Board of Studies)
Secretary to the Board of Studies Committee
FINANCE (No. 2) ACT 2014
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